From:	Milana, Natale (MOF)
To:	Arbuthnot, Andrea (CAB); Rahul Bhide (MTCS); Birks, Ryan (MOF); Susan Bishop (MCSCS); Scott Blodgett (MOF); Christian Bode (MOF); Bryant, Michelle (MOF); Buttivant, James (MOF); Victoria Coste (MOF); Daube, Nicholas (MOF); Deere, Emily (MOF); Jenarra DeSouza (MEDTE/MRI); Joyce Dong (MGS); Stephen Donnelly (MOF); Edwards, Malon (FSCO); Garcia-Wright, Agatha (MOF); Angie Georgakakos; Ghiassi, Ali (MOF); Anna Giannini (MOF); Iulia Hanganu (MOF); Hay, Jenna (MOF); Felicia Hewitt (MOF); Judith Hipolito (MOF); Kelsey Ingram (OPO); Ize-Dukuze, Marilyn (MOF); Bridget Jeanes (MGS); Lauren Kappius (MOF); Helen Katz (MOF); Kearney, Heather (MOF); LeBlanc, Jenna (FSCO); Rosemay Lee (MOF); Dianne Lone (MOF); David McLean (MOF); Elizabeth Mendes (MOF); Natale Milana (MOF); Moore, Brynne (MOF); Rebecca Morier (MOF); Marianne Nguyen (MCYS); Natalie Nolan (MOF); Patel, Lesley (MOF); Christopher Pearce (MOI); Jason Pichelli (MOF); Marc Pichette (MOF); Kostas Plainos (MOF); Christine Rankin (MTO); Samantha Reynolds (MGS); Giulio Rubini (MOF); Sadruddin Salman (MOF); Katrina Sehr (MOF); Vivienne Skoberne (MOHLTC); Gina Stephens (MOF); Matthew Sylvain (MOF); Garima Talwar (TCU); Ghufran Tarin (MOF); Geeta Thachil (MOF); Vaidyanathan, Priya (MOF); Wallace, Julia (MOF); Ward, Kathleen (MOF); Stuart Wilkinson (MOF); Lynsey Wynberg; Michelle Wyton (MOF); Gwendolynne Young (ENE); Christina Zhang; Sahar Ziaey (MOF)
Subject:	Afternoon Media Scan w/ Statement and Avail from Provinces Finances Briefing - Tuesday October 4, 2016
Date:	Tuesday, October 04, 2016 2:29:49 PM
Attachments:	image003.png image005.png image014.png image015.png Oct. 3 - Minister statements and media availability following technical ....doc

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TV NEWS SUMMARY (NOON EDITION)

Stations Surveyed: CFTO, CHCH, CKCO, CJOH, MCTV

GLOBAL (Toronto)

New numbers are out giving further insight into the effects of BC's new foreign-buyers tax on the province's housing market. Home sales in Metro Vancouver plunged by nearly 33 per cent last month compared to this time last year. Premier Kathleen Wynne is looking at whether a similar tax would work here in Ontario.

CKCO (Kitchener)

Premier Kathleen Wynne says her government will look into the advertising for a Trailer Park Boys-inspired whisky that is set to go on sale in the province. The website for the whisky features drink recipes that suggest pairing it with marijuana and hashish.

MCTV (Sudbury)

An accounting difference has the government of Ontario at odds with the province's auditor on just how much the deficit is.

AFTERNOON CLIPS

CPP Enhancement

B.C. finally gives key support for Canada Pension Plan expansion[app.infomart.com]

Financial Post - Tue Oct 4 2016
Byline: Postmedia News

B.C. confirms support for Canada Pension Plan enhancement[news.gov.bc.ca]

news.gov.bc.ca - Tue Oct 4 2016
Permalink[news.gov.bc.ca]

Government of Canada Welcomes British Columbia's Support for a Stronger Canada Pension Plan[fin.gc.ca]

www.fin.gc.ca[fin.gc.ca] - Tue Oct 4 2016
Permalink[fin.gc.ca]

Small business disappointed as BC signs on to deal to hike CPP premiums[cfib-fcei.ca]

www.cfib-fcei.ca[cfib-fcei.ca] - Tue Oct 4 2016
Permalink[cfib-fcei.ca]

Foreign Buyers / Land Transfer Tax

Vancouver homes sales plunge nearly 33% in second month since foreign buyers' tax[app.infomart.com]

Financial Post - Tue Oct 4 2016
Byline: Garry Marr

Foreign buyers just lost 25% of the gains they made on housing[app.infomart.com]

Financial Post - Tue Oct 4 2016
Byline: John Shmuel

Stress tests won't fix Canada's heated housing market; Changes are as much about being seen to be responding to housing problem as it is about fixing it[app.infomart.com]

theglobeandmail.com - Mon Oct 3 2016, 7:31pm ET
Byline:BARRIE McKENNA

Canadian Economy

Conference Board sees losses for Canada's oil industry into 2017[app.infomart.com]

Financial Post - Tue Oct 4 2016
Byline: The Canadian Press

IMF trims Canada's economic outlook; Organization now projects economic growth of 1.2 per cent this year and 1.9 per cent in 2017. In each case, the outlook has been trimmed by 0.2 of a percentage point from its July projections[app.infomart.com]

theglobeandmail.com - Tue Oct 4 2016, 9:00am ET
Byline: Staff And wires

IMF cuts Canada's growth forecast, blames the United States[app.infomart.com]

Financial Post - Tue Oct 4 2016
Byline: The Canadian Press

TWEETS

CPP Enhancement


Dan Kelly @CFIB [twitter.com] 7m7 minutes ago[twitter.com]
Where do finance ministers think small biz owners & employees are going to find $ for #CPP[twitter.com] hikes. CFIB mbrs say it will come from wages.

Bad news for small businesses across Canada: B.C. confirms support for Canada Pension Plan enhancement | BC Gov News https://news.gov.bc.ca/releases/2016FIN0042-001893 …[t.co]

CanadianPM @CanadianPM [twitter.com] 32m32 minutes ago[twitter.com]
This strengthened CPP will mean greater income security for future retirees. #cdnpoli[twitter.com]

All nine participating provinces have now agreed to move forward with strengthening the Canada Pension Plan. #cdnpoli[twitter.com]


Bill Morneau @Bill_Morneau [twitter.com] 11m11 minutes ago[twitter.com]
We’re moving full steam ahead on retirement security! Legislation will be introduced this fall to strengthen the #CPP[twitter.com].


Michael de Jong @Mike_de_Jong [twitter.com] 58m58 minutes ago[twitter.com]
BC confirms support for Canada Pension Plan enhancement https://news.gov.bc.ca/releases/2016FIN0042-001893 …[t.co] @Bill_Morneau[twitter.com] #CPP[twitter.com]

Unifor Canada @UniforTheUnion [twitter.com] 6m6 minutes ago[twitter.com]
British Columbia has officially agreed to the enhanced #CPP[twitter.com]. Unifor looks forward to new legislation to help all Cnd's retire with dignity.

CTV News @CTVNews [twitter.com] 14m14 minutes ago[twitter.com]
After delay, B.C. agrees to back Ottawa's proposal to expand Canada Pension Plan http://ow.ly/pva5304QN7V [t.co] #cdnpoli[twitter.com]

Public Accounts / Ontario Debt

 **Catherine Fife** @CFifeKW [twitter.com] 25m25 minutes ago[twitter.com]
UNAUDITED version of Ontario's Public Accts delivered last night to my office. A dangerous precedent. #onpoli[twitter.com]

Spat with AG sees Ontario debt soar http://www.torontosun.com/2016/10/03/liberals-in-spat-with-auditor-general …[t.co] #onpoli[twitter.com]

 **Allison Jones** @allisonjones_cp [twitter.com] 29m29 minutes ago[twitter.com]
ICYMI: Ont government in accounting spat with auditor; affects deficit by $1.5B, net debt by $10.7B http://www.metronews.ca/business/2016/10/03/ontario-government-disputes-auditor-general-s-accounting-methods.html …[t.co] #onpoli[twitter.com]

The auditor's preferred pension accounting rules have also pushed the net-debt-to-GDP ratio over 40% #onpoli[twitter.com]

The government wants to get it down to the pre-recession level of 27%

Toronto Sun @TheTorontoSun [twitter.com] 29m29 minutes ago[twitter.com]
Ontario Liberals have consistently made the fiscal file worse: @anthonyfurey[twitter.com] http://ow.ly/kRWD304PXOq [t.co] #onpoli[twitter.com]

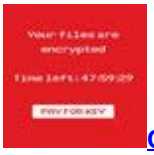
Taxation / Housing

National Post @nationalpost [twitter.com] 34m34 minutes ago[twitter.com]
'The tax spooked everybody': Vancouver's $1,000-a-day home price escalation starts to stutter http://natpo.st/2doS3W1 [t.co]

The Empire Club @Empire_Club [twitter.com] 1h1 hour ago[twitter.com]
New mortgage rules established to ensure Canadian homebuyers can withstand fluctuating interest rates. http://okt.to/fOXX8a [t.co]

Financial Post @financialpost [twitter.com] 33s33 seconds ago[twitter.com]
Canada's $440-billion mortgage-backed securities market may cool on new rules http://natpo.st/2dtWbQy [t.co]

The Globe and Mail @globeandmail [twitter.com] 29m29 minutes ago[twitter.com]
#Breaking[twitter.com] Vancouver home sales drop nearly 33% as new tax takes hold
http://trib.al/Pws3iUK [t.co] from @brentcjang[twitter.com]


Canadian Underwriter @CdnUnderwriter [twitter.com] 10m10 minutes ago[twitter.com]
IBC applauds federal government's approach to carbon pricing

LCBO / Alcohol

Toronto Sun @TheTorontoSun [twitter.com] 42m42 minutes ago[twitter.com]
Well, here's a solution. Perhaps we should put @trailerparkboys[twitter.com] in charge of legalizing pot:
@chrizblizz[twitter.com] http://ow.ly/H72g304PUdO [t.co] #onpoli[twitter.com]

Adrian Morrow @AdrianMorrow [twitter.com] 28m28 minutes ago[twitter.com]
Deb Matthews scrum on Trailer Park Boys' whisky has been going for 10 minutes #onpoli[twitter.com]


Christina Blizzard @chrizblizz [twitter.com] 14m14 minutes ago[twitter.com]
References to weed, early boozing deleted from Liquormen's Dirty Ol' Canadian Whisky ahead of LCBO launch. #onpoli[twitter.com] 1/2

There will be no boozing before 10 am. I repeat, no booze before 10 a.m. No six paper spliffs. Kindly pass the Earl Grey. #onpoli[twitter.com] 2/2

Economy

Financial Post @financialpost [twitter.com] 23m23 minutes ago[twitter.com]
IMF cuts Canada's growth forecast, blames the United States http://ow.ly/3FcG304QbYN [t.co]
#business[twitter.com]


Dan Kelly @CFIB [twitter.com] 13m13 minutes ago[twitter.com]
7 years of CPP premium hikes start in 2019, 5 years of carbon taxes/pricing start in 2018. I guess we're expecting an economic boom?

U.S. / Global Economy

IMF @IMFNews [twitter.com] 36m36 minutes ago[twitter.com]
Global growth weak at 3.1% this year, rising to 3.4% next. #WEO[twitter.com] explains the forces & tensions shaping outlook http://ow.ly/Q0TD304Q2Te [t.co]

Monetary policy alone won't restore vigor to economies; fiscal & structural policies are also vital. #WEO[twitter.com] http://ow.ly/uubh304Qepj [t.co]

Reuters Top News @Reuters [twitter.com] 53m53 minutes ago[twitter.com]
Bill Gross of Janus warns financial markets have become 'a Vegas casino': http://reut.rs/2dbknFW [t.co]

The Conference Board @Conferenceboard [twitter.com] 42m42 minutes ago[twitter.com]
#CEOConfidence[twitter.com] returns to negative territory worldwide on Q3 declines in the US, Europe, and China. http://ow.ly/gzI0304QftR [t.co]

Provincial / Local

Toronto Region BOT @TorontoRBOT [twitter.com] 1h1 hour ago[twitter.com]
NEWS RELEASE: Building Talent: new report quantifies 147,000 jobs to be created through GTA infrastructure builds http://bit.ly/2dXQKff [t.co]

OSC - Securities

Investment Executive @IE_Canada [twitter.com] 22m22 minutes ago[twitter.com]Canada[twitter.com]
When it comes to #debt[twitter.com] management, most Canadians would turn to family and friends before talking to #advisors[twitter.com]: poll http://bit.ly/2dGTquh [t.co]


INTERNATIONAL MONETARY FUND


REUTERS


NP


UNIFOR
the Union

MEDIA EVENT: MINISTER STATEMENTS AND MEDIA AVAILABILITY FOLLOWING TECHNICAL BRIEFING ON PROVINCE'S FINANCES

October 3, 2016

Time / Location:

2:45 p.m. - Kenora/Nipigon/Nipissing Rooms

Speakers:

Ministers Sandals and Sousa; PC MPPs MacLeod and Fedeli

Media Attendance:

Print – 5 TV – 5 Radio – 1

Media Outlets:

Jones – CP; Benzie – Star; Morrow – Globe; Jeffords – Sun; Nanji– QP Briefing; Lamoureux - Radio Canada TV; Global; Rath - CHCH Television; Tumelty - City TV; Other unidentified reporters

	Statement by Minister Sandals: So, good afternoon, everyone. And I would just like to start by confirming that Ontario's annual report and unaudited Consolidated Financial Statements for 2015/16 show that Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 budget. With the province's deficit for 2015/16 at $5 billion. This is $0.7 billion lower than the $5.7 billion interim projection that we showed in the 2016 budget. So, as I assured the house last week, this marks the seventh year in a row that Ontario has beaten its deficit target. And we are committed to balancing the budget in 2017/18, and remaining balanced in 2018/19. In preparing the 2015/16 annual report and unaudited Consolidated Financial Statements, Treasury Board staff worked with our colleagues in ministries across government to assemble financial information for the annual report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently-established accounting standards, then reviews this work. Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015/16 Public Accounts. We did so because this year Treasury Board public servants and the Auditor have been engaged in discussions regarding the accounting treatment of pension assets based on a new interpretation of public sector accounting standards taken by the Auditor. Unfortunately, at this time, the Auditor General has not provided an audit opinion on the province's financial statements for 2015/16. This is why the government is releasing these unaudited financial statements to ensure openness and transparency. We felt it important for there to be one set of numbers with respect to the province's financial position. The government believes it is in the public interest to release its financial

	information now since we are six days past the legislated deadline. I would now like to take this opportunity to discuss the pension issue in more detail. Pension accounting requires the application of professional judgement. And working together as much as they could, the province's professional accounting staff and the Auditor General could not reach an agreement on the appropriate application of the public sector accounting board's standards in relation to pension accounting. To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. In fact, the current Auditor General has accepted this treatment for the last two years, resulting in unqualified or clean audit opinions. Three previous auditors general have also accepted it. There has been no change to the relevant accounting standard over the past 14 years. In order to maintain the integrity of the public service, which recommended that the previous accounting treatment continue, and show respect for the auditor, who recommended a new treatment, our government looked to find an immediate solution. This resulted in the government regulating the treatment of pension assets to reflect the fiscal outcome proposed by the Auditor General. We wanted to take a cautious approach during the period under which this issue will be reviewed by experts. This approach also reassures the public the government is on track in regard to its fiscal targets. The impact of the change resulted in an additional $1.5 billion added to the deficit and an additional $10.7 billion being added to the net debt. The public sector accounting board has recognised the pension issue and is working with governments across Canada to provide additional clarity to the current standard, and Ontario, of course, will be part of this national discussion. Ontario will also be engaging with the experts to support a full review on the basis and nature of the differences. The province will consult individuals with a range of backgrounds and experience, including people who prepare accounts, joint sponsors, and auditors of public sector financial reports. It is important to stress that the two pension plans in question, the OPSEU pension plan and the Ontario Teachers' pension plan, are both healthy and well-funded. Second, I would like to take this opportunity to say a little bit more about the 2015/16 financial statements. Although these financial statements are unaudited, it is important to stress that the province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget next year in 2017/18, and remaining balanced in 2018/19. And for emphasis, the province is taking the same view of the 2015/16 results as the auditor. Openness and transparency is a top priority for our government, and we believe it is in the public interest for the Auditor General to issue an audit opinion on Ontario's

	finances so that the public account can in fact be released as expeditiously as possible. And I would now like to turn it over to my colleague, Minister Sousa. **Statement by Minister Sousa:** For the past 14 years, our government and previous governments have followed the same accounting standards with respect to the treatment of jointly sponsored pension plans. These standards have been consistently accepted by the past 4 Auditors, including the current Auditor General. Under the same standards has provided unqualified or clean audited opinions for the past 2 years. This year, two weeks before the September 27th deadline for the tabling of public accounts, we learned in writing from the Auditor-General of her new interpretation of the accounting treatment for our jointly sponsored pension plans, which would result in those assets being written off with no value. In addition, as you know, this new interpretation has resulted in a difference of opinion from accountants from within the Ontario Public Service and the office of the Auditor General. I have great respect for the expertise and independence of both the office of the Auditor General and the province's professional accounting staff. I believe their respective opinions warrant additional discussion and analysis. However, we also have a responsibility to the people of Ontario to be open and transparent about our financial position. It's important that Ontarians see that even in this time of global economic uncertainty, Ontario's economy continues to grow and our fiscal plan continues to improve. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. It's also important that we remain open and transparent so investors in the financial markets can maintain their confidence that Ontario's still on track to balance the budget in 2017-18. That's why we've decided to release our financial statements to the public today despite the divergence in accounting opinions. In order to do this, we regulated a treatment of the pension assets in a manner that's consistent with the fiscal outcome proposed by the Auditor General for the 2015-16.We believe this to be the most cautious approach that ensures the public has access to our financial statements and that our numbers aligned with those of the Auditor General, at least until an independent review of the opposing opinions can be completed. The impact of this change resulted in our deficit number being $1.5 billion higher than it otherwise would have been in the 2015-16 results had we used the same standards employed for the past 14 years. Now I want to reiterate what Minister Sandals has said: that even after incorporating the Auditor's proposed accounting interpretation, we have still beaten our annual deficit target for the seventh year in a row. We've done this by controlling the growth and spending, by making sure every dollar spent provides maximum value to taxpayers, and by providing the integrity of our province's revenues. The 2016-17 first

	quarter finances also confirmed that the government's projecting a deficit of $4.3 billion in 2016-17, unchanged from 2016 budget forecast. Our government's committed to eliminating the deficit by 2017-18 and remaining in balance in 2018-19 as outlined in our most recent budget. The new accounting interpretation does not change the commitment, nor does it change the progress we've made in creating jobs and growing the economy. It's also important to note that regulated accounting change has no impact on the province's borrowing requirements. I should also add that just today Moody's released a report noting that, and I quote, "Ontario's debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province's improving fiscal position and conservative debt management policy." As we prepare the 2016 fall economic statement and 2017 budget, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of the accounting treatment will need to be taken into consideration, along with emerging economic information. This is particularly important as we continue to track toward our commitment to balance the budget by 2017-18 and 2018-19. And with that, we'll take questions.
Q:Jones: Can you still get to balance under the Auditor General's proposed (inaudible)?	Sousa: We are on track to balance as I have said already, notwithstanding the changes that have been made, we, in fact, our balance is not affected. In fact our budget, last budget deficit is further reduced from what we anticipated at $8.5 initially, $5.7 and now it is at $5B in keeping with the Auditor's revisions and new principals that she has provided.
Q; Benzie: The Auditor says the reason, what has changed since last year, is that her officials got a bit suspicious or they were wondering how you were counting money that you could not have access to as an asset. I am just wondering…	Sousa: The President of the Treasury Board can respond to this as well. But we are not here to dispute the interpretation. We are here to determine and release the statements for the benefit of the public. And we have released them in keeping with the Auditor General's revisions. We have actually directed our public service who have done an excellent job but are not in agreement. Notwithstanding, we provided the statements as the Auditor has requested and we have released them to the public.
Q: Morrow: Is the worry here is that if the Auditor says you know this particular accounting practice that everyone has been using for 15, 14 years or whatever, that is wrong as the net debt, that she might find other things in your books that she decides that we are going to have to do this differently as well and that is just going to pile on more and more debt. Is that sort of the concern here, there might be (inaudible)?	Sousa: I will ask Minister Sandals to respond as well. But let's be clear. We have a matter of dispute between accounting professionals. We as the politicians and recognizing the need to release these statements have done so and directed our public servants to do so within the Auditor's requirements. The Auditor and three other auditors before her have been working and reviewing our financial statements and have full confidence in our public service and the work they do. They are all professionals and they have all provided great advice to the province over time. We have been open and transparent. C.D. Howe Institute has again rated Ontario's financials with an A recognizing that we surpass all others in terms of transparency. Sandals: Yeah I would like to agree with Minister Sousa.

	This isn't really about worrying about a lot of what if that and what if that. It is really about a conundrum that we faced as ministers and as Cabinet which is on one hand is that we had advice from the Auditor saying do it this way. On the other hand we had advice from our professional public service saying do it another way. We had to find some sort of a resolution and the resolution was to pass a regulation which said we will in fact present the books in 2015-16 in the way the Auditor has requested for the current 2015-16 year. So it was simply a matter from our point of view of not weighing in on the accounting. We'll ask experts to do that in the coming months. It was simply trying to find a way in which we could actually get you the books so you could see what is going on. And the regulation was a way in which we could facilitate that.
Q: Benzie: The Auditor says she is disappointed that the government has chosen to have this briefing the way you are having while her office is still in talks with your office and Charles' office about this accounting squabble. Are you guys playing politics with her because the government has had issues with her on the Government Advertising Act and other issues in the past? Is this another flare-up in a war that you have (inaudible)?	Sandals: No, this truly is not about politics. This about the fact that according to Financial Accountability Act, we are to table the public accounts by 180 days after the end of the fiscal year. September 27th was 180 days after the end of the fiscal year. So what we've been trying to figure – what we tried to figure out was a way in which we could achieve the legislative requirement to table the public accounts. Now technically this is not tabling the public accounts because we don't have and audited opinion. But what it does do is it makes exactly the same financial information available to the public that would've been available to the public had we tabled the accounts on time and it also adopts the accounting treatment for this year, which was requested by the Auditor General.
Q: Morrow: You guys must be steamed though. I mean, the Auditor comes in on September 13 and says, 'Well, hey guys, by the way, I found this thing, and now your deficit is going to be $1.5 billion higher than you wanted to announce. There's all this extra debt.' That must be annoying to you guys after you've worked so hard to bring the deficit down.	Sandals: I think what I would say is what has been challenging for us is to find a way in which we could present the public accounts which recognized that we seem to have an insoluble problem in terms of two different opinions. We found a way to present the books and I'm very pleased we're able to get the books to you and leave absolutely no question that in fact we have met the deficit targets, with or without the extra $1.5 billion. Minister Sousa: I may also add that you saw the tone of questioning today in the House. Obviously the opposition have wind of the fact that there's a dispute underway. We can't have that lack of confidence in the public realm. We need to ensure that people understand what is out, what our numbers mean, and what our financial state of affairs are. And that's one of the very reasons we came forward. If there are discussions being taken by the opposition with other offices of the legislature, that's unacceptable. We want to make certain it's available to all.
Q: Jeffords: So why not just accept the Auditor General's interpretation?	Sousa: It's not up to us to accept, as we must ensure that the public service accountants who are actually preparing the documents will also sign. At this point they do not and they will not because they disagree with the interpretation

	being provided, a new interpretation by the Auditor that our professional accountants do not agree with. So it's important for us to ensure – and we've directed them to provide the numbers – a way of regulation and keeping with the Auditor's request and enabling us time to provide for professional accountants to review the matter and effectively provide an opinion on behalf of all of us so we can operate effectively. But in the meantime, we've done what the Auditor General's asked, we presented the statements for the benefit of the public, and we want to make certain that everyone understands where we stand and where we must go.
Q: Benzie: Are you saying she is in cahoots with the opposition? You're saying that she's sharing information that the opposition [inaudible]?	Sousa: Not at all. I'm saying that the opposition has just come forward with questions in regards to this matter. We – and I don't want to have uncertainty as to what's happening in the financial state of affairs of the province. It's important for us to get this out quickly.
Q: Tumelty: Minister, I understand you had a meeting with the Auditor General this morning? Did you not? Or did your staff have a meeting with her staff this morning? And if so, did you mention you were going to have this press conference this afternoon?	Sousa: Well we did have a meeting with the Auditor General this morning and we discussed the issues before us. We referenced that the financial statements are what they are. And she cited that she wouldn't provide an audited opinion. And then we would say this is a matter of urgency and we want to make certain it's out there. I respect the office of the Auditor General and the work that she's doing. We have an obligation, of course, to ensure that we release the documents.
Q: Tumelty: But did she know that—	Sandals: We identified that we had an urgent need to get the financial statements to the public because of the fact that we had passed the legislative time limit, and that we did have an urgent need to get the information to the public.
Q: Tumelty: So you didn't tell her you were going to have press conference this afternoon?	Sandals: We told her that we had an urgent need to get the information to the public. Sousa: Thank you everybody.
	Statement by MacLeod: (Joined in progress) (inaudible) today it looks like we have an $11 billion dollar hole in the government's books and you could drive a Mac truck straight through it. This dispute, it appears that the government wants to continually undermine independent officers of this assembly and has produced unaudited, unverified documents to the assembly and through the media to the public, and as a result I think a good question to ask is what is the government continuing to hide? And secondly, who are we supposed to trust? The government with their fantastical numbers? Or the Auditor General who has an independent office for the people of the province, And with that, I'll pass it over to our finance critic, Vic Fedeli. **Statement by Fedeli:** Well, we'll take questions, I just wanted to basically add two comments. The Auditor General has raised concerns, and what does the government do?

	They issue an unaudited annual report. They cannot issue their Public Accounts, so it's apparent that they are trying to usurp the Auditor General by coming out with a series of unaudited, and calling it an annual report. There—This is not the time for an annual report. We're looking for the public accounts, which look in the rear-view mirror and tell us about the numbers that have actually been spent. When the Auditor finds an $11 billion hole in the budget, in the Liberal accounting, and the Liberal answer is to release this unaudited report, the (inaudible) obviously has concerns, and the Liberals have now changed the rules. They've come out with a one-time, time-limited version of what they're allowed to do. That is unacceptable, unparalleled, and really tells you the true state of our finances here in the province of Ontario.
Q: Benzie: But if these assets we're counting, these pension assets were counted as assets when the Tories were in power for 2001, 2002, 2003, would that mean that there was then—that we've been deluded about the debt even when you guys were in government? And the deficit, I don't believe you guys had a deficit the last year in office, but I think there was one in 2002.	MPP Fedeli: So, if the Auditor has decided that this is the set of rules that need to be followed, rather than be standing here—and you saw, they're in full-blown panic mode, there were 40 or 50 Liberal staffers here today, this isn't light-hearted as Ms. Sandals said, oh, this is just a little issue with paperwork. There are 40 or 50 staff here. This is full-blown panic mode. This is serious. The Auditor General says this is the way we are accounting, and the Liberals didn't agree with that. This is—if they're so convinced that they're right, why not meet with the Auditor General on an ongoing basis until it's resolved? If you're that confident, if they're convinced that their numbers are right, meet with the Auditor General and get through these numbers and get to an agreement. Don't pull a run, an end run with all of your team here and try to usurp her with an unaudited report. That is not standing behind your numbers. Now, I think, the accounting world will have even larger questions. If Minister Sousa thought, as he said in response to Lisa MacLeod's question this morning which seems to have prompted all this, if he thought that the accounting world will be calmed by what happened here today, I think we now realise you've got major forces at war.
Q: Benzie: How big do you think the deficit is? Do you think it's $5 billion? (inaudible)	Look, I'm waiting to hear what the deficit is from the true professionals, the Auditor General and our Financial Accountability Officer.
Q: Morrow: (inaudible) battles between the Auditor and the province? What's the (inaudible)	MPP MacLeod: So, I think we've got a problem here with the government whenever they've disclosed. Whether that's a scandal and there's an auditor general's report, whether that's on electricity (inaudible), they try to discredit this particular Auditor Genera, and they've done that several times, including Minister Chiarelli (inaudible) the current Auditor General despite her background in the energy sector that this was too complex. Secondly, let's be perfectly clear. A former independent officer of this assembly has become so disgruntled with the Liberals he had decided to run as a Progressive Conservative in a tough seat. But let's be perfectly clear here: This is a government that as early as

	last week had some of its government staffers contact our offices to indicate this would be a significant hole in their budget. They contacted us; it's not an independent officer contacting the Progressive Conservatives. We have known for close to a week now that the government was in this dispute. And we learned from them, we learned again over Friday, as I suggested in my question, that three senior bureaucrats with the government were planning to call the Auditor General partial. And I think this is just a continuation of a desperate government that has 18 months to go and sees historic lows in the Premier's popularity. I think it is down to 16% now and they are just trying to find a way to get out of a mess. And by the way they still haven't table the Public Accounts so there is still is a delay in the Financial Accountability Legislation that the government tables. I don't know if Vic has something else to add. Fedeli: More questions?
Q: Benzie: I think (inaudible) is a lot higher that 16%.	MacLeod: I think it is 17% with the Throne Speech. (laughter) Fedeli: At the end of the day, you can see again they are surrounded by 30, 40, 50 staffers here, full panic mode. They are trying to continue with the message about balancing. Now most of them have left the room because they don't, you know. They are trying to talk about the fact they are going to balance but it is artificial. The Financial Accountability Officer has told us the only way they are going to reach balance is by the one-time sale of assets and when that stops after the election, we plunge back into deficit. That is the message they don't want to see, don't want people to talk about, and that is why they are out at any opportunity they can to talk about this and I will call it again an artificial balancing of the budget. And they got caught again today.
Q: Jeffords: The FAO has warned about increased borrowing costs. The government has said today this will have no impact on the province's borrowing requirements. What do you think?	Fedeli: Well I am eager to see what the Auditor General tells us. Again, the Public Accounts is a rear view mirror. This looks backwards. It's their budget that we will look forward and give us forecasts. Public Accounts is only a rear-view mirror which tells us exactly what was spent. There is no ifs, no ands, no buts, no forecasting, it's numbers, just raw accounting. And that is the biggest concern. If it was a budget, and there is lots of fluff in a budget, you are forecasting, you might say something, you might say something else. This is Public Accounts. This is where the Auditor audits your numbers and the Auditor tells you looking back, here is the picture, here is the real picture. That is why there is a real problem here. So whether this will affect it on a go-forward, the budget will tell us that. They will have to put a number in that budget. That's fair. MacLeod: All good? Thanks everyone. Thanks Vic.

N.B.: Comments captured are not verbatim quotes	

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A deal's a deal, even if provinces regret it[app.infomart.com]

National Post - Thu Oct 6 2016
Byline: Ron Clark
Page: FP9

Pensions and Income Security

News - 3 Results

Making the 'BIG' case; Sudbury conference exploring whether the Basic Income Guarantee is a good idea[app.infomart.com]

Sudbury Star - Thu Oct 6 2016
Byline: Mary Katherine Keown
Page: A1 / Front

Basic income no magic bullet; Alternative model to address poverty issues might not be the answer, report says[app.infomart.com]

Toronto Star - Wed Oct 5 2016
Byline: Laurie Monsebraaten Social Policy Reporter
Page: A6

Ontario’s pension solvency framework should mirror Quebec’s new regime: ACPM | Benefits Canada[benefitscanada.com]

www.benefitscanada.com[benefitscanada.com] - Wed Oct 5 2016
Permalink[benefitscanada.com]

Provincial-Local

News - 3 Results

Scarborough subway timetable in peril; TTC boss warns $3.2B budget and deadline are in danger as city works to finalize route[app.infomart.com]

Toronto Star - Wed Oct 5 2016
Byline: Ben Spurr Toronto Star
Page: A1

Toronto city council unanimously approves $2.4M for design work on Rail Deck Park[app.infomart.com]

CBC.CA News - Wed Oct 5 2016, 6:20pm ET
Byline:CBC News

Business is booming at Pearson airport, but transit still isn't[app.infomart.com]

Star Touch - Thu Oct 6 2016
Byline: Vanessa Lu

Taxation

News - 10 Results

SKY HIGH PRICES; As housing prices continue to rise in the country's two hottest real estate markets, B.C.'s foreign-buyer tax is having an impact on sales in Vancouver and may be starting to affect the Toronto market as well[app.infomart.com]

The Globe and Mail - Thu Oct 6 2016
Byline:BRENT JANG, JEFF GRAY, ADRIAN MORROW
Page: A8

Rule changes expected to reduce home sales; Toronto Up 21%[app.infomart.com]

National Post - Thu Oct 6 2016
Byline: Garry Marr
Page: FP8

Toronto home prices soar; Market wary of new mortgage rules[app.infomart.com]

Welland Tribune - Thu Oct 6 2016
Byline: Garry Marr
Page: C10

B.C.'s hot market hits tipping point; Vancouver property sales see a sharp nosedive as new tax measures take effect[app.infomart.com]

Toronto Star - Wed Oct 5 2016
Byline: Natalie Obiko Pearson and Katia Dmitrieva Bloomberg
Page: GT8

West Vancouver to propose own vacancy tax targeting speculators; West Vancouver would use any revenue gained from the proposed tax to create affordable housing, Councillor Craig Cameron said[app.infomart.com]

theglobeandmail.com - Thu Oct 6 2016, 6:00am ET
Byline:MIKE HAGER

Emissions tax latest hit to oil patch[app.infomart.com]

The Globe and Mail - Wed Oct 5 2016
Byline:JEFF LEWIS, SHAWN McCARTHY
Page: B1

'Bed tax' deal not near[app.infomart.com]

The Brockville Recorder & Times - Thu Oct 6 2016
Byline: Ronald Zajac
Page: A1 / Front

Airbnb says it's on board with proposed regulations[app.infomart.com]

The Globe and Mail - Thu Oct 6 2016
Byline:SUNNY DHILLON
Page: S1

To ease the GTA's housing troubles, start by reducing red tape[app.infomart.com]

The Globe and Mail - Thu Oct 6 2016
Byline:KENNETH GREEN, JOSEF FILIPOWICZ
Page: B4

Board to monitor new rules as September house prices jump[app.infomart.com]

Star Touch - Thu Oct 6 2016
Byline: Tess Kalinowsk



From:	Christina Zhang
To:	Ken Kandeepan; Bonnie Lemcke
Subject:	FW: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 11:31:33 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx

Hi,

This should be the very last piece. Hopefully.

Please let me know if you have any concerns with the Q&As in the attached media products package that was used for yesterday's announcement. You may want to focus on Qs: 30, 31, 57, 58, 68, 74, 75, 80, 81, 83, and 84.

Thanks,
Christina

From: Christina Zhang
Sent: Tuesday, October 04, 2016 9:58 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: Latest SCOPA Comms Products

Good morning,

Here we go again! =)

We've been asked to re-review the SCOPA materials one more time prior to the 12pm briefing.

- DM remarks – Attached are the latest DM remarks. Please review and let me know if you have any concerns. Would it make to reference the new Moody's report instead of the credit outlook upgrade? If so, would you mind amending his speech as appropriate?
- Gadi's remarks – Ken, thanks again for updating the 8.5 cents. I made a small edit to the speech to note that the ratio is the lowest its been since 1990. Is that okay?
- General Q&As – Ken, if you're okay with that change in the speech, I'll amend the general Q&As as well.
- Friendly Q&As – Attached incorporates edits Bonnie just sent. We're also ask to review #1, 2, 3, 8, and 9 as there's quite of overlapping. I think #1 and 2 needs to be removed. As there may not be enough time for Gadi's speech, we've been asked to reformat Gadi's remarks to Friendly Q&A format.
- PA Media package - Please also review the Q&A section and fill in any areas as necessary.

I'm working from today so please give me a call at 416-625-6524 if you have any questions.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Monday, October 03, 2016 6:56 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From:	Christina Zhang
To:	Mike Manning; Ken Kandeepan; Bonnie Lemcke
Subject:	FW: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 9:57:36 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx SCOPA_Remarks_MOF Deputy Thompson_v9.docx SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx Gadi Maymans Speaking Points CSB edits_Oct 4 2016 9am.docx MOF QAs_Oct 3 2016 6pm.docx

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Good morning,

Here we go again! =)

We've been asked to re-review the SCOPA materials one more time prior to the 12pm briefing.

- DM remarks – Attached are the latest DM remarks. Please review and let me know if you have any concerns. Would it make to reference the new Moody's report instead of the credit outlook upgrade? If so, would you mind amending his speech as appropriate?
- Gadi's remarks – Ken, thanks again for updating the 8.5 cents. I made a small edit to the speech to note that the ratio is the lowest its been since 1990. Is that okay?
- General Q&As – Ken, if you're okay with that change in the speech, I'll amend the general Q&As as well.
- Friendly Q&As – Attached incorporates edits Bonnie just sent. We're also ask to review #1, 2, 3, 8, and 9 as there's quite of overlapping. I think #1 and 2 needs to be removed. As there may not be enough time for Gadi's speech, we've been asked to reformat Gadi's remarks to Friendly Q&A format.
- PA Media package - Please also review the Q&A section and fill in any areas as necessary.

I'm working from today so please give me a call at 416-625-6524 if you have any questions.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Monday, October 03, 2016 6:56 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 6, 2016

Word count: ~~974~~TBD

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Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

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I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government has confirmed its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

The Budget, which was released in February, forecast a deficit of $5.7 billion in 2015–16.

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If that deficit target is achieved, the deficit would be $2.8 billion lower than projected in the 2015 Budget.

It would also mark the seventh year in a row that the province has beaten its deficit target.

And it would represent a $4.6 billion improvement compared to the

2014–15 deficit.

By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.

The government is achieving these savings by managing program spending growth and by making strategically important financial decisions.

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in

2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote, "The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels." End quote.

Moody’s also forecast Ontario's debt to, and I quote: "fall marginally across the medium-term and, as importantly, for interest expense to remain manageable as well." End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

Friendly Questions

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

Remarks by Gadi Mayman

CEO

Ontario Financing Authority

to the Standing Committee

on Public Accounts

Toronto, Ontario

~~September 21~~October 5, 2016

Word count: 835~~740~~

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed towards ~~target continues to be to~~ reducinge the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments.

~~Ontario's deliberate choice to invest in the economy during the recession~~
~~Once balance is achieved, the increase in Ontario's net debt will be limited to its net investment in tangible capital assets.~~
This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes in a report issued October 3, 2016 that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[

Ontario conducts a robust and responsible borrowing program that protects the public interest.

In 2015–16 the government successfully completed its annual borrowing program, borrowing $32.1 billion.

As of September 30, ~~August 31,~~ 2016, the province has borrowed $13.3 billion of its
$24.4 billion requirement for fiscal 2016–17.

The recently released 2015-16 unaudited Financial Statements of the Province included a legislated pension adjustment that increased net debt by $10.7 billion.

The pension adjustment was non-cash and does not impact either the Province's total debt or its borrowing requirements.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

As of ~~August 31,~~September 30, 2016, the average term to maturity for new borrowing in 2016–17 was 15.~~6~~3 years.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

As I mentioned a moment ago, it was 15.~~6~~3 years as of September 30th ~~August 31~~ this year.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, ~~The current forecast is~~ ~~2~~3.~~7~~5 cents lower than what was forecast in 2010. ~~We are currently tracking at nine cents of every revenue dollar.~~

This ratio is the lowest~~r than it h~~was been since ~~in the~~ 1990~~s and 2000s~~, and is forecast to remain low~~er~~ through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

As of September 30, ~~July 31,~~ 2016, the actual values for Ontario's net interest rate resetting exposure and~~-~~ foreign exchange exposure were 10.6 ~~9.35~~ per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.
- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.
- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.
- In May, both Quebec and California sold about 11% of the total allowances they each offered.
- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and
- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Friendly Questions

Debt Burden

~~**Q. Our government has a target for reducing the net-debt-to-GDP ratio.**~~

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

Interest Rates

Q. Chapter 2 of the Auditor General's 2014 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3~~6~~ years as of ~~August 31.~~September 30.

Financial Instruments Standard

Q. I understand that proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect interest on debt. Would it also affect other financial indicators of the provincial government?

A. The use of financial indicators helps the public and other readers of the Annual Report assess the financial health of the Province. Through the indicators' levels and trends, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government is responding to these.

The Public Sector Accounting Board's (PSAB) new standard on Financial Instruments, if implemented in its current form, would have a significant impact on how the Province uses derivatives to convert its current exposure in foreign currency debt into Canadian-dollar obligations. The proposed standard, which does not allow for hedge accounting, would introduce significant and difficult-to-forecast volatility in the accounting treatment of the Province's IOD, net debt and deficit. This is contrary to the current PSAB standard, comparable international and U.S. accounting standards, and Canadian private-sector accounting standards, all of which allow for hedge accounting.

Update to 2016 Budget, as of July 31, 2016

- The Province used derivatives to hedge approximately 98 per cent of its $61 billion in foreign currency debt into Canadian dollars.
- While $43 billion of this hedging would remain unaffected under the new standards, IOD and the deficit would become subject to significant swings entirely due to the type of derivative used on the remaining $18 billion.
- The derivative instruments used to hedge this $18 billion currently provide savings of up to 35 basis points, or over $60 million annually, relative to the cost of instruments that would otherwise have to be used under the new standard to eliminate volatility.
- From April 1st, 2016 to July 30th, 2016, the Canadian dollar depreciated by 0.7 cents against the U.S. dollar. Under the new standard, this would have resulted in a $1.3 billion accounting impact to the Province's IOD and deficit.

Ontario, supported by the borrowing communities of the majority of the provinces, has communicated its outstanding concerns with the standard to PSAB. It has requested that PSAB consider hedge accounting as an option, in line with comparable international, U.S. and Canadian private-sector accounting standards. This approach would eliminate the potential accounting swings in IOD, the deficit and net debt. This would allow Ontario to continue to use the most economically efficient means of hedging its foreign exchange exposure and also ensure that the Province's financial results reflect the economic substance underlying its use of derivative instruments.

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

~~**Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of**~~ **approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?**

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of ~~August 31~~September 30, 2016, $13.3~~2.5~~ billion or 54~~1~~ per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of ~~August 31~~September 30, 2016, the Province had borrowed $13.3~~2.5~~ billion for the fiscal year. Approximately 69~~71~~ per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive

funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used

for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1

Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Friendly Question

Electricity Sector Stranded Debt

Q: The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in *Budget 2016*, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.

This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

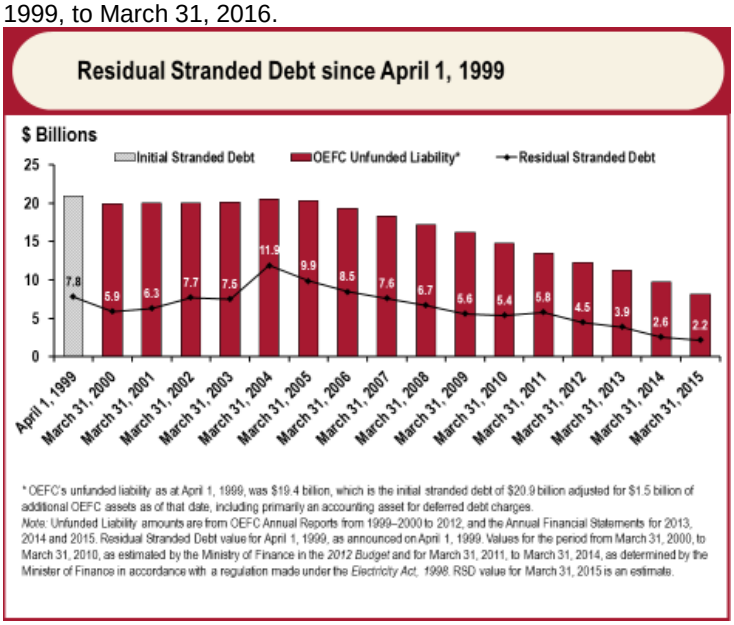
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015.

- As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC’s annual reports contain OEFC’s audited financial statements which are also released as part of the Province’s Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC’s annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC’s past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).

- A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC’s website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)

Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

From: Sylvain, Matthew (MOF)
To: Christina Zhang
Subject: FW: Latest SCOPA Comms Products
Date: Tuesday, October 04, 2016 9:13:01 AM
Attachments: MOF General Q&As.docx
PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx
SCOPA_Remarks_MOF Deputy Thompson_v9.docx
SCOPA 2016 Friendly QAs_v1 (2016-10-03).docx

Hi Christina—I've been liaising with TBS comms this morning on prep for today's noon meeting.

Are you preparing friendly Qs for Gadi? It was one of the deliverables that the Deputy directed be prepared (since there's a chance Gadi won't be able to make his prepared remarks, due to time limitations).

The idea was to take is remarks and reproduce them in a QA package (to keep the task simple).

Feel free to ring me if you have any questions.

Thanks,

Matt

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 3, 2016 6:56 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF); Sylvain, Matthew (MOF)
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).

rd

- TBS Media Package for 2015-16 PA as of October 3 , 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.

- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.

- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.

- In May, both Quebec and California sold about 11% of the total allowances they each offered.

- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and

- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?

A. The reduction in the Net Debt-to-GDP ratio was primarily due to lower than forecast deficits and investment in capital assets in 2015–16.

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of August 31, 2016, $12.5 billion or 51 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.
This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

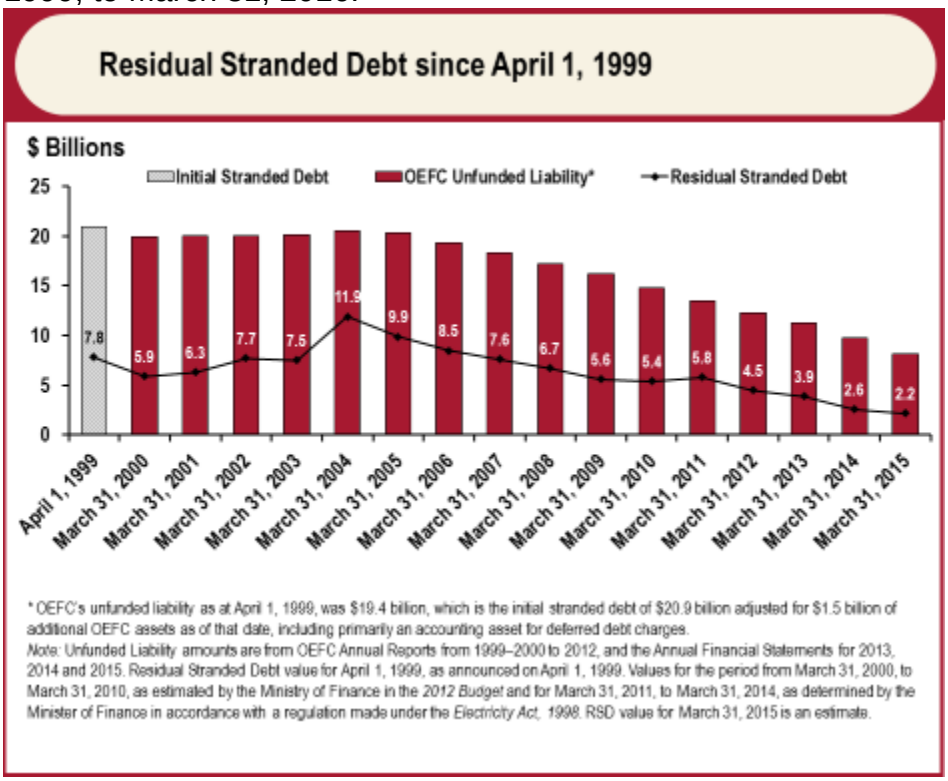
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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www.ontario.ca/treasury-board-secretariat
Disponible en français

Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 6, 2016

Word count: ~~974~~TBD

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Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

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I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government has confirmed its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

The Budget, which was released in February, forecast a deficit of $5.7 billion in 2015–16.

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If that deficit target is achieved, the deficit would be $2.8 billion lower than projected in the 2015 Budget.

It would also mark the seventh year in a row that the province has beaten its deficit target.

And it would represent a $4.6 billion improvement compared to the

2014–15 deficit.

By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.

The government is achieving these savings by managing program spending growth and by making strategically important financial decisions.

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in

2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote, "The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels." End quote.

Moody’s also forecast Ontario's debt to, and I quote: "fall marginally across the medium-term and, as importantly, for interest expense to remain manageable as well." End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

Friendly Questions

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

From:	Ize-Dukuze, Marilyn (MOF)
To:	Christina Zhang
Subject:	FW: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 2:38:31 PM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm)_SIFBmarkup5.docx

Did your team have edits to this? The QA section will be a separate 2015-16 QA package.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Tomasz Bugajski [mailto:Tomasz.Bugajski@ofina.on.ca]
Sent: Tuesday, October 4, 2016 11:53 AM
To: Ize-Dukuze, Marilyn (MOF); Zhang, Christina (OFA); Tarin, Ghufran (MOF); Sylvain, Matthew (MOF); Birks, Ryan (MOF)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Subject: RE: Latest SCOPA Comms Products

Sorry for the delay. Here are our edits to the TBS media Q&As.

Tomasz Bugajski
EA & Special Policy Advisor
Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Tomasz Bugajski
Sent: Tuesday, October 04, 2016 10:59 AM
To: 'Ize-Dukuze, Marilyn (MOF)' <Marilyn.Ize-Dukuze@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Hi Marilyn – here are our edits to Q5 of the friendlies. We still have edits to the TBS media package Q&As, which I'll send shortly.

Tomasz Bugajski
EA & Special Policy Advisor

Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: Re: Latest SCOPA Comms Products

Thanks all, appreciate the turnaround - can we get outstanding edits by 11:30am at the latest? We have to share digital copies with WSIB who will be calling into the meeting and Bud Sec is short staffed for printing.

Thanks,
Marilyn
ph. 416.326.8529 | bb. 416.302.3609

Envoyé de mon smartphone BlackBerry 10 sur le réseau Rogers.

De: Christina Zhang
Envoyé: mardi 4 octobre 2016 09:57
À: Tarin, Ghufran (MOF); Bugajski, Tomasz (OFA); Sylvain, Matthew (MOF); Birks, Ryan (MOF); Ize-Dukuze, Marilyn (MOF)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Objet: RE: Latest SCOPA Comms Products

Ditto.

From: Tarin, Ghufran (MOF) [mailto:Ghufran.Tarin@ontario.ca]
Sent: Tuesday, October 04, 2016 9:55 AM
To: Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

OEP is reviewing the materia and we will get back to you as soon as we are done.

Thanks,

Ghufran

From: Tomasz Bugajski [mailto:Tomasz.Bugajski@ofina.on.ca]
Sent: October-04-16 9:47 AM
To: Sylvain, Matthew (MOF); Birks, Ryan (MOF); Ize-Dukuze, Marilyn (MOF); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Subject: RE: Latest SCOPA Comms Products

Yes, they're coming. Will get them to you ASAP.

Tomasz Bugajski
EA & Special Policy Advisor
Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Sylvain, Matthew (MOF) [mailto:Matthew.Sylvain@ontario.ca]
Sent: Tuesday, October 04, 2016 9:46 AM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Marilyn and Ryan, yes I can input them.

Tomasz, Christina, will there be other edits from OEP and the OFA I should anticipate to them as well?

Thanks,

Matt

From: Birks, Ryan (MOF)
Sent: October 4, 2016 9:41 AM
To: Ize-Dukuze, Marilyn (MOF); Sylvain, Matthew (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi Marilyn and Matthew,

Attached are OB/Fiscal Framework edits that reflect recent developments (i.e. yesterday's release of the 2015-16 Annual Report).

Can these edits please be incorporated ahead of the Joint MO/DMO SCOPA briefing at noon?

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

From: Ize-Dukuze, Marilyn (MOF)
Sent: October-03-16 6:56 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF); Sylvain, Matthew (MOF)
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

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Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.
- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.
- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.
- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.
- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.
- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.
- Keeping the public informed through transparent financial reporting remains a priority.
- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General's office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.
- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.
- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.
- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.
- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.
- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.
- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.
- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.
- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.
- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is

different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. **On what exactly do you disagree with the Auditor?**

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for

users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from qualifying asset ~~optimization activities~~sales, including the broadening of ownership of Hydro One and real estate sales, to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

The Ontario Rebate for Electricity Consumers would help make everyday life easier for Ontario families, small businesses and farms with electricity costs by providing a rebate that is equal to the eight per cent provincial portion of HST. This rebate would appear directly on the consumer's electricity bill, resulting in savings of about $130 a year or $11 per month for a typical Ontario residential consumer.

Commented [TB1]: Added by Tara

Commented [TB2]: Added by OFA-CEFD

The government remains committed to balancing the budget by 2017-18 while continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

The government will provide further details and will update the medium-term fiscal outlook in the upcoming Ontario Economic Outlook and Fiscal Review.

Commented [TB3]: Added by Tara

~~We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.~~

Commented [TB4]: Removed by Tara

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor

General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015

Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to ~~improve the company's long-term performance and~~ unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will also create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's

revenues by about $2.4 billion. The ~~gain~~ fiscal benefit associated with d~~D~~eferred t~~T~~ax b~~B~~enefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. ~~The gains from these share sales will be credited to the Trillium Trust over time as the loans are repaid.~~

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion ~~being~~ that has been credited to the Trust in connection with the sale of Hydro One shares in 2015~~at this time~~ does not include amounts associated with shares purchased by the ~~Power Workers' Union (~~PWU~~)~~ and the ~~Society of Energy Professionals (~~SEP~~)~~ trusts using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances. ~~While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an a~~

Asset sales provide ~~includes~~ upfront gains that the government will reinvest into public infrastructure. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

Through this initiative, the Province expects to generate direct impacts of $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward.; and $5 billion to reduce debt.

As shown in Volume 1, the Province has dedicated $3.2 billion in net revenue gains raised from the sale of Hydro One shares in 2015 to the Trust, bringing the total balance of the Trust to over $4.5 billion.

Net revenue gains from the offering completed in April 2016 as well as from future offerings will be dedicated to the Trillium Trust.

Whileith the broadening of ownership of Hydro One, the Province will still continue to benefit infrom Hydro One as an on-going revenue generating asset, including any future growth, based on the Province's proportionate ownership share. means that there may be an impact on revenues over the longer term, the fiscal impact of an

The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.
As at March 31, 2016 the Province owned about 84 per cent of Hydro One and following the April 2016 offering the Province now holds about 70 per cent of Hydro One.

Following future sales the province would retain 40 per cent of Hydro One which would continue generating revenue for the Province.

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the

Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

Commented [DS5]: Please see the answer to question 45, which is a similar Q&A. Trying to keep things consistent.

Commented [DS6]: Would also need to be reviewed by OEP.

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

~~Taxation r~~Revenues also reflected higher than expected ~~a one-time increase in Electricity payments-in-lieu of taxes~~net revenues related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure

they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. The recommendations included~~is would involve~~ an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings~~ and~~, the partial sale of Hydro One, and the sale of LCBO head office lands been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO – , the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 and the June 2016 sale of the LCBO head office lands will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support transit, transportation and priority infrastructure projects under Moving Ontario Forward.

The deferred tax benefit provides an up-front revenue gain to the Province, which also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales. This does not affect the total cash the Province receives. By dedicating the fiscal benefit from the deferred tax benefit to the Trillium

Trust, the government ensures that the Trust will receive the full benefit of the value created from broadening Hydro One's ownership.
~~TBC OPCD~~

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $~~3.5 billion~~ 31.5 billion would be dedicated to the Moving Ontario Forward plan over ten years. Of that amount, ~~So far,~~ only $~~1.355~~5.7 ~~billion has been dedicated to the Trillium Trust~~would come from asset optimization. How do you propose to supply the ~~$2.15 billion~~ difference?

Commented [DS7]: Would need to also be reviewed by OTB

In addition to unlocking the value of Provincial assets to support investments in infrastructure, Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- ~~The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.~~
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other

activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. ~~Why aren't the additional $2.2 billion in~~The Public Accounts shows the net revenue gains from the sale of Hydro One shares, including a credit to the Trillium Trust. What about the other revenues dedicated to the Moving Ontario Forward plan – are they reported in the Public Accounts?

Commented [DS8]: Would need to also be reviewed by OTB

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. ~~In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization.~~ The remaining ~~$2.2B in 2014-15~~dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2015~~4~~-1~~6~~5 Public Accounts.

Commented [DS9]: Assuming this is correct

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public

infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From:	Pearce, Christopher (MOF)
To:	Christina Zhang
Subject:	FW: MM&P: Public Accounts
Date:	Monday, October 03, 2016 10:03:25 AM
Attachments:	Agenda - Public Accounts Update (Oct 2).docx Scenario - Public Account 1 - 1003 v6.docx Bonnie Lysyk -- October 3_Oct 1 draft.docx Ministers Speaking Points meeting with AG Oct 3.docx Pension Asset Technical Briefing_Oct 1.v3.ppt

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From: McLean, David (MOF)
Sent: October 1, 2016 8:34 PM
To: Mendes, Elizabeth (MOF); Ingram, Kelsey (MOF); Pearce, Christopher (MOF)
Subject: Fw: MM&P: Public Accounts

FYI

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
Sent: Saturday, October 1, 2016 8:26 PM
To: Thompson, Scott (MOF); Hughes, Karen (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Mayman, Gadi (OFA); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Orsini, Steve (CAB); Betzner, Lynn (CAB); Tedesco, Lauren (TBS); Ingram, Kelsey (MOF); Bromm, William (CAB); Bevan, Andrew (OPO); Bardeesy, Karim (OPO); Maddock, Michael (CAB); MacKenzie, Rebecca (OPO); McEachern, Gillian (OPO); Killorn, Bill (OPO); Mksyartinian, Jacob (OPO); Ostergard, Matt (TBS); Pichelli, Jason (TBS); Farrow, Alicia (CAB)
Subject: MM&P: Public Accounts

Please find attached the materials for the MM&P meeting on Public Accounts. Attached you will find:

1. Agenda
2. Logistics overview
3. Deputy Minister's letter to the AG
4. Ministers' speaking points
5. Technical briefing deck

The communications products for the meeting will be sent later.

Thanks,

Kyle

Agenda

Briefing on Public Accounts 2:30 – 4:00pm

- October 2, 2016 -

Item	Lead
1. Introduction	Greg Orencsak / Scott Thompson
2. Logistics overview	CO / PO
3. Deputy Ministers letter to AG	TBS / MOF
4. Ministers' speaking points: meeting with the AG	TBS MO / MOF MO
5. Review technical briefing deck	TBS / MOF
6. Communications products (NR, Backgrounder, Q&A, Statement, Key Messages)	TBS / MOF / CO
7. Next steps	Greg Orencsak / Scott Thompson

Scenario: Technical Briefing – 2015/16 Annual Report: Consolidated Financial Statements

MacDonald Block: Kenora/Nipigon/Nipissing Room (all opened) and OPP Boardroom (Minister's Green Room)

Event Overview:

Date:	**Monday, October 3, 2016**	
Location:	**MacDonald Block, Kenora/Nipigon/Nipissing**	
Contacts:	**Sofie DiMuzio** **(416) 325-1376** **sofie.dimuzio@ontario.ca**	**Rebecca MacKenzie** **(416) 325-6734** **rebecca.mckenzie@ontario.ca**
	Matt Ostergard **(416) 326-3839** **matt.ostergard@ontario.ca**	**Others (TBC)**
Event start time:	**2:00PM Tech Briefing** **2:45PM Press Conference**	
Event end time:	**Approx. 3:15PM**	
Dress Code:	**Business**	
Setup:	**Technical Briefing (TBC)** • **briefing table (2 seats)** • **podium for moderator** • **double screen for presentation** • **tables/chairs for media with power supply/internet connection** • **Backdrop** **News Conference** • **Uni-mic/podium**	
Podium sign:	**TBC**	
Backdrop:	**TBC**	
Moderator:	**Scott Blodgett, Ministry of Finance**	
Speaker List:	**Greg Orencsak** **Scott Thompson**	

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Support to Deputies (no speaking role/not at table):
Nadine Petsche
Cindy Veinot

Media Availability: **Liz Sandals, President of the Treasury Board**
Charles Sousa, Minister of Finance

Media Products: **News release, Backgrounder, USB with Annual Report**

Itinerary:

Oct. 3, 2016	
9/9:15AM	Ministers/Chiefs of Staff/Deputies (TBS/FIN) meet with AG and provide letter to AG (Location: Ministers Boardroom, FIN (TBC) • Request for answer by *noon* (TBC)
10:30-11:30AM	Question Period
11:45PM	Premier/SOC meet with AG
12:15PM	SOC debrief with PO/MO/Senior Officials
1:15PM	Media Advisory posted and walked around Media Advisory to Gallery • PO Press Office Media Advisory to Opposition Critics • TBS MO
2:00PM	Technical Briefing (45 minutes)
2:45PM	Press Conference • Ministers Statements • Q&A
	NR/Backgrounder posted to Newsroom Visualisation goes live

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Ministry of Finance

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Bureau du
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Télécopieur: (416) 325-1612

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Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

October 3, 2016

Dear Ms. Lysyk:

Re: Finalizing 2015-16 Public Accounts

We would like to thank you for meeting with us last week and for the various conversations and email exchanges since that meeting as we work to finalize the 2015-16 Public Accounts. We appreciate the work of you and your staff to finalize the audit work on the Public Accounts, save for the issue discussed below.

As discussed at our in person meeting last week, we appreciate your interpretation of Public Sector Accounting Standards (PSAS) as it relates to the application of the standards to pension asset recognition for jointly sponsored pension plans. Unfortunately, we are not in agreement with that interpretation. As you are aware, the Province has applied consistent accounting treatment for these plans for the past 14 years and has consistently received unqualified audit opinions, without exception.

Based on our respective positions at this time, we believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration prior to making an accounting change. However, we also need to balance the time needed to further consider the issue with the need for timely tabling of the Public Accounts to ensure transparency about the Province's financial position.

The President of the Treasury Board has notified the Legislature last week that there will be a delay in tabling Public Accounts with the Lieutenant-Governor-in Council past the September 27, 2016 deadline. A lengthy delay in tabling the Public Accounts is not in the public interest. The Province believes that it is imperative for the Public Accounts to be tabled as soon as possible this week.

To that end, the government has decided to use legislated accounting for the pension assets related to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Pension Plan (OPSEUPP) for the 2015-16 Public Accounts. As we discussed at length at our meeting on September 27, and in subsequent conversations, the legislated accounting would result in the same valuation of the pension assets that you deem appropriate, and thus lead to the same fiscal results that you consider accurate for 2015-16.

We have shared the regulation with you on September 28 that provides for the legislative accounting treatment. The regulation enables the public service to take responsibility for the preparation of the Public Accounts in accordance with both legislation and PSAS. In addition and as noted earlier, the resulting fiscal results are consistent with your interpretation of PSAS, thereby eliminating any confusion for the public with respect to the results for the year.

We understand that you were not agreeable to the use of legislated accounting at our in-person meeting on September 27, and appreciate you proposing it as a solution in our conversation later that evening.

On September 29, 2016, we provided your office with the following documents:

- Consolidated Financial Statements;
- Financial Statement Discussion & Analysis and the remainder of the Annual Report; and
- Management letter of representation as agreed to in our telephone discussion with you on September 28, 2016.

Based on subsequent discussions with you and as well as email exchanges, we understand that you are of the view that the Consolidated Financial Statements and the balance of the Annual Report should not make reference to the use of legislation to explain the change in the accounting for pension assets related to the jointly sponsored pension plans. As you are aware, the use of legislation enables the public service to take responsibility for the preparation of the Public Accounts as being in accordance with legislation and PSAS, and, therefore, we believe it would be disingenuous to not disclose to the users the reason for the legislation. We have also communicated to you that the Province intends to continue to review the accounting treatment of pension assets related to jointly sponsored pension plans in the future. As you also know, the Public Sector Accounting Board (PSAB) has also formed a task

Draft

force as part of its review of the retirement and post-employment benefits. Two of our advisors are members of that task force and we will work with PSAB to encourage additional clarity with respect to the intersection of the accounting for jointly sponsored pension plans and the application of the asset ceiling test.

As discussed in our conversation on September 30, the government has not referred to legislated accounting in the past because there was no difference between the legislation and the public service's interpretation of PSAB, however, this situation is different. The Province does not agree with your proposal to restate the prior year and treat that adjustment as the correction of an error, and in addition this would not be consistent with the regulation, which you have seen.

We understand from our recent discussions that you may decide not to issue an opinion on the Consolidated Financial Statements. We hope that you are able to reconsider that view. We noted that you referenced professional standards as preventing you from issuing an opinion as a result of the use of legislation. In this regard, we would also point out that the Province's financial statements have noted that they were prepared in accordance with legislation and PSAS since 2011-12, including both years on which you have already signed a clean audit report.

We appreciate that resolution of this last issue has been difficult for all parties and in bringing it to a close, we are looking for your confirmation that you are prepared to issue an audit opinion on the financial statements and annual report submitted to you on September 29, 2016.

We look forward to a discussion with you and our Ministers today.

Draft

Scott Thompson
Deputy Minister
Ministry of Finance

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

c. The Honourable Charles Sousa, Minister of Finance
The Honourable Liz Sandals, President of the Treasury Board
Ali Ghiassi
Mike Jancik
Cindy Veinot
Nadine Petsche
Susan Klein
Bill Pelow

Public Accounts Discussion with Auditor General

October 3, 2016

We are here to discuss finalizing Public Accounts. Releasing the Public Accounts on a timely basis is very important to serve the public interest. We appreciate the efforts of you and your Office in working with the Province on some very complex accounting issues this year, but as you know, we are now past the statutory deadline for tabling Public Accounts.

We understand that despite the considerable amount of time and effort that has been invested by staff from our two ministries to try to bring closure to the Public Accounts, to date you have not been able to sign off on them and issue an audit opinion.

We are aware of your concerns regarding the accounting for the pension assets for OTPP and OPSEUPP on the Province's books.

We understand that you have suggested that the Province take as long as we need to study the issue. While that is a generous suggestion, it is our position that the public interest would not be best served by any further delays in releasing the Public Accounts.

We understand that legislated accounting was the only option that presents the numbers for 2015-16 as you believe they should be reflected that staff would be able to sign their names to. We were prepared to support the use of legislated accounting to ensure that the results to the public reflect the numbers that you deem accurate. No one is served by confusion around the numbers.

The legislative solution also acknowledges the need for further analysis and discussion on pension accounting on the province's books, which is a priority to both of us and our Cabinet colleagues, given:

- the significant impact that these changes can have on the Province's books; and
- because they have been accounted for consistently for the last 14 years, receiving clean audit opinions from you and three of your predecessors.

We are concerned as to why you have not been able to sign off on the financial statements to date, and why you have been reluctant to provide an accounting opinion on the statements that have been submitted to your Office on September 29. In fact, we understand that you have an obligation to do so.

For discussion:

IF AG declines to provide an opinion:

We believe that it is not in the public interest to experience further delay in seeing the province's financial results. We ask with urgency that you reconsider.

IF AG asks for more time to consider whether or not to provide an opinion.

We believe that further delay in knowing the state of the province's finances for 2015-16 would be contrary to the public interest. We request that you provide us with an assurance that you will provide an opinion by midday today.

If AG responds that she is prepared to offer an opinion by Wednesday the 5th:

In this challenging situation, that is helpful and we will look forward to tabling public accounts based on that opinion.

2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing – DRAFT FOR DISCUSSION

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province's financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has not yet provided her audit opinion, which is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General's audit report, the unaudited Report is being released to support transparency and accountability.
- The Report includes the unaudited consolidated financial statements of the Province as well as supplementary schedules and information contained in supporting volumes.

Ontario

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province's capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.
  - Whiteboard video explaining the important role of the Annual Report in supporting transparency and accountability

Summary 2015-16 Results

2015-16 Actual Results*					
$ Billions	2015-16 Budget	2015-16 Actual *	2014-15 Actual	Change from Budget	% Change
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4**	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt		**(305.2)**	(284.6)		
Accumulated Deficit		**(202.7)**	(187.5)		

*unaudited

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- No other province has similar governance frameworks for their jointly sponsored pension plans that are in a surplus position.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario's accounting practices based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would be accounted for under PSAB.

Ontario

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since their inception in 2001.
- An asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
- The AG has also taken the position that agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
- Based on the AG's interpretation of the PSAB standards, the Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

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Province's Position

- Based on the Province's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- The Province does not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

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Timeline

Jan./Feb.

- Public Accounts planning discussions with the OAGO

Wk. ending June 10

- OAGO first ask questions about pension asset matters

Wk. ending June 30

- Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets

September 1

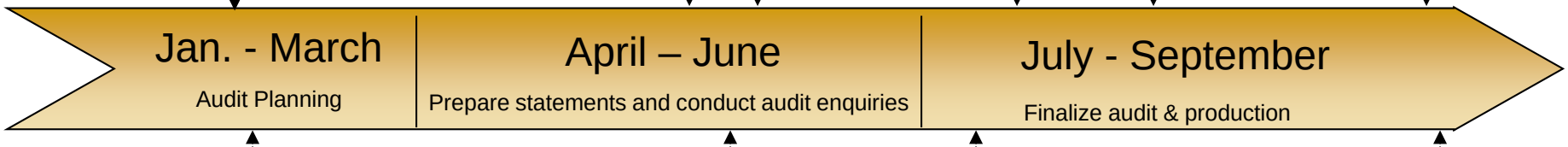
- TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo

September 13

- AG advises TBS and MOF that asset value to be reported on Province's books should be NIL.

September 14 – 30

- TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16



February

- Draft Audit Planning Report provided by the OAGO
- No reference to pension asset matters

Wk. ending June 17

- OAGO advises that an 'actuarial assessment' is needed
- TBS initiates competitive procurement process to engage actuary

July 21 – Aug. 19

- TBS selects and engages external actuary to perform analysis
- Actuary works with actuaries from OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
- Draft reports discussed with TBS, finalized and provided to OAGO
- Conclusions support status quo (no valuation adjustment required)

September 27

- Minister notifies the House that there would be a delay in tabling Public Accounts

Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
  The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

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Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
  - Increase in annual pension expense by $1.5 billion, which increases the annual deficit by the same amount
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

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Impact of Regulated Accounting on 2015-16 Annual Report

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	na	1,514	133,406
Annual Deficit	na	1,514	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

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In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans and will conduct a valuation review of the pension asset.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

From:	Christina Zhang
To:	Ken Kandeepan
Subject:	FW: MM&P: Public Accounts
Date:	Monday, October 03, 2016 10:07:58 AM
Attachments:	Agenda - Public Accounts Update (Oct 2).docx Scenario - Public Account 1 - 1003 v6.docx Bonnie Lysyk -- October 3_Oct 1 draft.docx Ministers Speaking Points meeting with AG Oct 3.docx Pension Asset Technical Briefing_Oct 1.v3.ppt

FYI. Note this is as of Saturday evening so more recent materials may have been circulated.

From: Pearce, Christopher (MOF) [mailto:Christopher.Pearce@ontario.ca]
Sent: Monday, October 03, 2016 10:03 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: FW: MM&P: Public Accounts

From: McLean, David (MOF)
Sent: October 1, 2016 8:34 PM
To: Mendes, Elizabeth (MOF); Ingram, Kelsey (MOF); Pearce, Christopher (MOF)
Subject: Fw: MM&P: Public Accounts

FYI

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
Sent: Saturday, October 1, 2016 8:26 PM
To: Thompson, Scott (MOF); Hughes, Karen (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Mayman, Gadi (OFA); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Orsini, Steve (CAB); Betzner, Lynn (CAB); Tedesco, Lauren (TBS); Ingram, Kelsey (MOF); Bromm, William (CAB); Bevan, Andrew (OPO); Bardeesy, Karim (OPO); Maddock, Michael (CAB); MacKenzie, Rebecca (OPO); McEachern, Gillian (OPO); Killorn, Bill (OPO); Mksyartinian, Jacob (OPO); Ostergard, Matt (TBS); Pichelli, Jason (TBS); Farrow, Alicia (CAB)
Subject: MM&P: Public Accounts

Please find attached the materials for the MM&P meeting on Public Accounts. Attached you will find:

1. Agenda
2. Logistics overview
3. Deputy Minister's letter to the AG
4. Ministers' speaking points
5. Technical briefing deck

The communications products for the meeting will be sent later.

Thanks,

Kyle

Agenda

Briefing on Public Accounts 2:30 – 4:00pm

- October 2, 2016 -

Item	Lead
1. Introduction	Greg Orencsak / Scott Thompson
2. Logistics overview	CO / PO
3. Deputy Ministers letter to AG	TBS / MOF
4. Ministers' speaking points: meeting with the AG	TBS MO / MOF MO
5. Review technical briefing deck	TBS / MOF
6. Communications products (NR, Backgrounder, Q&A, Statement, Key Messages)	TBS / MOF / CO
7. Next steps	Greg Orencsak / Scott Thompson

Scenario: Technical Briefing – 2015/16 Annual Report: Consolidated Financial Statements

MacDonald Block: Kenora/Nipigon/Nipissing Room (all opened) and OPP Boardroom (Minister's Green Room)

Event Overview:

Date:	**Monday, October 3, 2016**	
Location:	**MacDonald Block, Kenora/Nipigon/Nipissing**	
Contacts:	**Sofie DiMuzio** **(416) 325-1376** **sofie.dimuzio@ontario.ca**	**Rebecca MacKenzie** **(416) 325-6734** **rebecca.mckenzie@ontario.ca**
	Matt Ostergard **(416) 326-3839** **matt.ostergard@ontario.ca**	**Others (TBC)**
Event start time:	**2:00PM Tech Briefing** **2:45PM Press Conference**	
Event end time:	**Approx. 3:15PM**	
Dress Code:	**Business**	
Setup:	**Technical Briefing (TBC)** • **briefing table (2 seats)** • **podium for moderator** • **double screen for presentation** • **tables/chairs for media with power supply/internet connection** • **Backdrop** **News Conference** • **Uni-mic/podium**	
Podium sign:	**TBC**	
Backdrop:	**TBC**	
Moderator:	**Scott Blodgett, Ministry of Finance**	
Speaker List:	**Greg Orencsak** **Scott Thompson**	

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Support to Deputies (no speaking role/not at table):
Nadine Petsche
Cindy Veinot

Media Availability: **Liz Sandals, President of the Treasury Board**
Charles Sousa, Minister of Finance

Media Products: **News release, Backgrounder, USB with Annual Report**

Itinerary:

Oct. 3, 2016	
9/9:15AM	Ministers/Chiefs of Staff/Deputies (TBS/FIN) meet with AG and provide letter to AG (Location: Ministers Boardroom, FIN (TBC) • Request for answer by *noon* (TBC)
10:30-11:30AM	Question Period
11:45PM	Premier/SOC meet with AG
12:15PM	SOC debrief with PO/MO/Senior Officials
1:15PM	Media Advisory posted and walked around Media Advisory to Gallery • PO Press Office Media Advisory to Opposition Critics • TBS MO
2:00PM	Technical Briefing (45 minutes)
2:45PM	Press Conference • Ministers Statements • Q&A
	NR/Backgrounder posted to Newsroom Visualisation goes live

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Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

October 3, 2016

Dear Ms. Lysyk:

Re: Finalizing 2015-16 Public Accounts

We would like to thank you for meeting with us last week and for the various conversations and email exchanges since that meeting as we work to finalize the 2015-16 Public Accounts. We appreciate the work of you and your staff to finalize the audit work on the Public Accounts, save for the issue discussed below.

As discussed at our in person meeting last week, we appreciate your interpretation of Public Sector Accounting Standards (PSAS) as it relates to the application of the standards to pension asset recognition for jointly sponsored pension plans. Unfortunately, we are not in agreement with that interpretation. As you are aware, the Province has applied consistent accounting treatment for these plans for the past 14 years and has consistently received unqualified audit opinions, without exception.

Based on our respective positions at this time, we believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration prior to making an accounting change. However, we also need to balance the time needed to further consider the issue with the need for timely tabling of the Public Accounts to ensure transparency about the Province's financial position.

The President of the Treasury Board has notified the Legislature last week that there will be a delay in tabling Public Accounts with the Lieutenant-Governor-in Council past the September 27, 2016 deadline. A lengthy delay in tabling the Public Accounts is not in the public interest. The Province believes that it is imperative for the Public Accounts to be tabled as soon as possible this week.

To that end, the government has decided to use legislated accounting for the pension assets related to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Pension Plan (OPSEUPP) for the 2015-16 Public Accounts. As we discussed at length at our meeting on September 27, and in subsequent conversations, the legislated accounting would result in the same valuation of the pension assets that you deem appropriate, and thus lead to the same fiscal results that you consider accurate for 2015-16.

We have shared the regulation with you on September 28 that provides for the legislative accounting treatment. The regulation enables the public service to take responsibility for the preparation of the Public Accounts in accordance with both legislation and PSAS. In addition and as noted earlier, the resulting fiscal results are consistent with your interpretation of PSAS, thereby eliminating any confusion for the public with respect to the results for the year.

We understand that you were not agreeable to the use of legislated accounting at our in-person meeting on September 27, and appreciate you proposing it as a solution in our conversation later that evening.

On September 29, 2016, we provided your office with the following documents:

- Consolidated Financial Statements;
- Financial Statement Discussion & Analysis and the remainder of the Annual Report; and
- Management letter of representation as agreed to in our telephone discussion with you on September 28, 2016.

Based on subsequent discussions with you and as well as email exchanges, we understand that you are of the view that the Consolidated Financial Statements and the balance of the Annual Report should not make reference to the use of legislation to explain the change in the accounting for pension assets related to the jointly sponsored pension plans. As you are aware, the use of legislation enables the public service to take responsibility for the preparation of the Public Accounts as being in accordance with legislation and PSAS, and, therefore, we believe it would be disingenuous to not disclose to the users the reason for the legislation. We have also communicated to you that the Province intends to continue to review the accounting treatment of pension assets related to jointly sponsored pension plans in the future. As you also know, the Public Sector Accounting Board (PSAB) has also formed a task

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force as part of its review of the retirement and post-employment benefits. Two of our advisors are members of that task force and we will work with PSAB to encourage additional clarity with respect to the intersection of the accounting for jointly sponsored pension plans and the application of the asset ceiling test.

As discussed in our conversation on September 30, the government has not referred to legislated accounting in the past because there was no difference between the legislation and the public service's interpretation of PSAB, however, this situation is different. The Province does not agree with your proposal to restate the prior year and treat that adjustment as the correction of an error, and in addition this would not be consistent with the regulation, which you have seen.

We understand from our recent discussions that you may decide not to issue an opinion on the Consolidated Financial Statements. We hope that you are able to reconsider that view. We noted that you referenced professional standards as preventing you from issuing an opinion as a result of the use of legislation. In this regard, we would also point out that the Province's financial statements have noted that they were prepared in accordance with legislation and PSAS since 2011-12, including both years on which you have already signed a clean audit report.

We appreciate that resolution of this last issue has been difficult for all parties and in bringing it to a close, we are looking for your confirmation that you are prepared to issue an audit opinion on the financial statements and annual report submitted to you on September 29, 2016.

We look forward to a discussion with you and our Ministers today.

Draft

Scott Thompson
Deputy Minister
Ministry of Finance

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

c. The Honourable Charles Sousa, Minister of Finance
The Honourable Liz Sandals, President of the Treasury Board
Ali Ghiassi
Mike Jancik
Cindy Veinot
Nadine Petsche
Susan Klein
Bill Pelow

Public Accounts Discussion with Auditor General

October 3, 2016

We are here to discuss finalizing Public Accounts. Releasing the Public Accounts on a timely basis is very important to serve the public interest. We appreciate the efforts of you and your Office in working with the Province on some very complex accounting issues this year, but as you know, we are now past the statutory deadline for tabling Public Accounts.

We understand that despite the considerable amount of time and effort that has been invested by staff from our two ministries to try to bring closure to the Public Accounts, to date you have not been able to sign off on them and issue an audit opinion.

We are aware of your concerns regarding the accounting for the pension assets for OTPP and OPSEUPP on the Province's books.

We understand that you have suggested that the Province take as long as we need to study the issue. While that is a generous suggestion, it is our position that the public interest would not be best served by any further delays in releasing the Public Accounts.

We understand that legislated accounting was the only option that presents the numbers for 2015-16 as you believe they should be reflected that staff would be able to sign their names to. We were prepared to support the use of legislated accounting to ensure that the results to the public reflect the numbers that you deem accurate. No one is served by confusion around the numbers.

The legislative solution also acknowledges the need for further analysis and discussion on pension accounting on the province's books, which is a priority to both of us and our Cabinet colleagues, given:

- the significant impact that these changes can have on the Province's books; and
- because they have been accounted for consistently for the last 14 years, receiving clean audit opinions from you and three of your predecessors.

We are concerned as to why you have not been able to sign off on the financial statements to date, and why you have been reluctant to provide an accounting opinion on the statements that have been submitted to your Office on September 29. In fact, we understand that you have an obligation to do so.

For discussion:

IF AG declines to provide an opinion:

We believe that it is not in the public interest to experience further delay in seeing the province's financial results. We ask with urgency that you reconsider.

IF AG asks for more time to consider whether or not to provide an opinion.

We believe that further delay in knowing the state of the province's finances for 2015-16 would be contrary to the public interest. We request that you provide us with an assurance that you will provide an opinion by midday today.

If AG responds that she is prepared to offer an opinion by Wednesday the 5th:

In this challenging situation, that is helpful and we will look forward to tabling public accounts based on that opinion.

2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing – DRAFT FOR DISCUSSION

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province's financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has not yet provided her audit opinion, which is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General's audit report, the unaudited Report is being released to support transparency and accountability.
- The Report includes the unaudited consolidated financial statements of the Province as well as supplementary schedules and information contained in supporting volumes.

Ontario

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province's capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.
  - Whiteboard video explaining the important role of the Annual Report in supporting transparency and accountability

Summary 2015-16 Results

2015-16 Actual Results*					
$ Billions	2015-16 Budget	2015-16 Actual *	2014-15 Actual	Change from Budget	% Change
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4**	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt		**(305.2)**	(284.6)		
Accumulated Deficit		**(202.7)**	(187.5)		

*unaudited

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- No other province has similar governance frameworks for their jointly sponsored pension plans that are in a surplus position.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario's accounting practices based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would be accounted for under PSAB.

Ontario

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since their inception in 2001.
- An asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
- The AG has also taken the position that agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
- Based on the AG's interpretation of the PSAB standards, the Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

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Province's Position

- Based on the Province's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- The Province does not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

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Timeline

Jan./Feb.

- Public Accounts planning discussions with the OAGO

Wk. ending June 10

- OAGO first ask questions about pension asset matters

Wk. ending June 30

- Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets

September 1

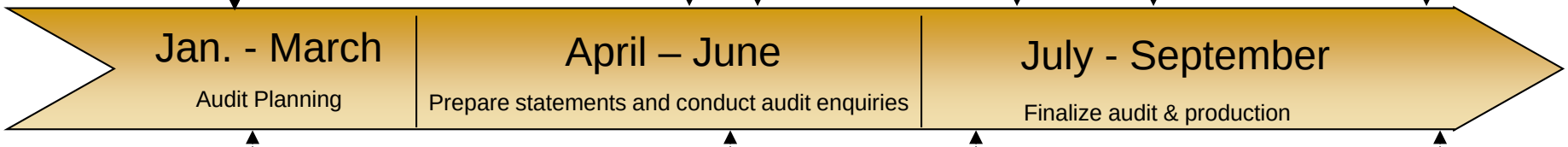
- TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo

September 13

- AG advises TBS and MOF that asset value to be reported on Province's books should be NIL.

September 14 – 30

- TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16



February

- Draft Audit Planning Report provided by the OAGO
- No reference to pension asset matters

Wk. ending June 17

- OAGO advises that an 'actuarial assessment' is needed
- TBS initiates competitive procurement process to engage actuary

July 21 – Aug. 19

- TBS selects and engages external actuary to perform analysis
- Actuary works with actuaries from OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
- Draft reports discussed with TBS, finalized and provided to OAGO
- Conclusions support status quo (no valuation adjustment required)

September 27

- Minister notifies the House that there would be a delay in tabling Public Accounts

Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
  The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

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Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
  - Increase in annual pension expense by $1.5 billion, which increases the annual deficit by the same amount
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

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Impact of Regulated Accounting on 2015-16 Annual Report

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	na	1,514	133,406
Annual Deficit	na	1,514	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

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In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans and will conduct a valuation review of the pension asset.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

From: Christina Zhang
To: Erica Wieder
Subject: FW: November 3 CINs
Date: Thursday, November 03, 2016 3:27:51 PM
Attachments: niagara_gaming_bundle4.doc
FAO_fall_economic&fiscal_outlook1.docx.doc

From: CIU, Current Issues (MOF) [mailto:CurrentIssues.CIU@ontario.ca]
Sent: Thursday, November 03, 2016 1:31 PM
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Subject: November 3 CINs

1. FAO's Fall 2016 Economic and Fiscal Outlook
2. OLG Modernization in Niagara

November 3, 2016

OLG MODERNIZATION IN NIAGARA

What is the status of the Ontario Lottery and Gaming Corporation's (OLG's) modernization in Niagara?

SUGGESTED RESPONSE

- **OLG has a transparent and fair procurement process underway to modernize lottery and gaming in Ontario by involving private service providers in the operation of its day-to-day lottery and gaming businesses.**

- **OLG has added Casino Niagara and Fallsview Resort Casino to its modernization procurement process.**

- **On October 13, 2016, OLG released the Request for Pre-Qualifications (RFPQ) for the Niagara Bundle.**

- **OLG expects to begin the RFP process in the coming months.**

- **Through including the Niagara Casinos in modernization, OLG will continue to contribute to local economic development in the City of Niagara community.**

If pressed about why OLG is including the Niagara Casinos in modernization:

- **Modernizing the Niagara Casinos will generate positive financial return to the Province and will ensure greater consistency in Ontario's gaming market.**

- **It also makes the future capital costs of developing, expanding, improving and maintaining the Niagara Casinos the responsibility of a service provider, freeing up public funds for key priorities.**

If asked about the City of Niagara resolution to postpone the RFPQ:

- **The integrity of the OLG modernization process is of the utmost importance.**

- **As a Crown Agency, OLG follows provincial procurement rules.**

- **The timing of the RFPQ corresponds with the need to secure a new operator in 2018. In addition, sufficient time is required for the RFP process.**

<u>If asked about the Niagara Falls Entertainment Centre:</u>

- **In June 2016, OLG released an RFP to select proponents to design, build, finance and maintain a new Entertainment Centre in the City of Niagara Falls.**

- **Moving forward with the Niagara Falls Entertainment Centre will improve the value of the Niagara Gaming Bundle. It will also contribute to the community by helping to create jobs and encouraging economic growth in the region.**

CURRENT STATUS

On October 25, 2016, Niagara City Council unanimously passed a motion requesting that “the Niagara RFPQ process be postponed until the City's goals and objectives are incorporated and the City is treated as a key partner in the process”. The City has expressed concern that the RFPQ is designed to primarily promote revenue generation, not job retention/creation, investment and economic development.

The RFPQ is currently scheduled to close in December 2016. OLG is reviewing the City’s resolution and considering next steps.

BACKGROUND

On April 1, 2016, OLG announced it is adding the Niagara Casinos, which includes Fallsview Casino Resort and Casino Niagara, to its modernization procurement process.

On June 30, 2016, OLG released the RFP to select a proponent to design, build, finance and maintain a new Entertainment Centre in Niagara Falls. The future service provider selected to operate the Niagara Gaming Bundle will also be responsible for operating the future entertainment centre.

On October 13, 2016, OLG released the Niagara Gaming Bundle RFPQ. OLG expects to begin the RFP process for the Niagara Gaming Bundle in the coming months. It may take up to three years to procure a new service provider.

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Date Prepared: September 1, 2016
Date Updated: November 3, 2016
Approved by: Tanya Watkins, A/Director
November 3, 2016

File Name: n:\fall16\alcohol&gaming\gaming\niagara_gaming_bundle4

November 3, 2016

FAO'S FALL 2016 ECONOMIC AND FISCAL OUTLOOK

On November 3, 2016, the FAO released its fall 2016 assessment of Ontario's medium-term economic and fiscal outlook. The FAO revised down its projection for Ontario real and nominal GDP growth compared to the outlook presented in its spring report and projects budget deficits in all years between 2016-17 and 2020-21.

SUGGESTED RESPONSE

- **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 as we pursue our fiscal plan.**

- **The government is committed to balancing the budget by 2017–18 and remaining balanced in 2018–19.**

- **In fact, the recently released Public Accounts of Ontario for 2015-16 showed that we beat our annual deficit target again, for the seventh year in a row.**

- **Even though the FAO is projecting deficits in all years between 2016–17 and 2020–21, he does acknowledge that the "government has a broad range of policy options that could improve [its] fiscal position."**

- **The FAO also recognizes that the Ontario economy posted strong real GDP growth over the second half of 2015 and into the first quarter of 2016.**

- **This shows that our plan to invest in the Ontario economy is working.**

- **The government will continue to monitor economic and fiscal developments and will provide an update on the Province's economic outlook and fiscal plan in the upcoming Ontario Economic Outlook and Fiscal Review.**

- **We know there is hard work ahead to balance the budget by 2017–18. We will make the tough but necessary decisions while investing in priority areas that support economic growth and prosperity.**

If asked about Pensions:

- **For the *Public Accounts of Ontario for 2015-16*, the government regulated a one-time change to accommodate the Auditor General's interpretation of the accounting treatment for pension assets of Ontario's pension plans.**

- **Even with the impact of the pension adjustment, the *Public Accounts of Ontario for 2015-16* showed that we beat our annual deficit target again, for the seventh year in a row.**

- **To help inform the future accounting treatment of pension plans, the Province is establishing an advisory panel to review the matter. Recommendations from the panel will inform the *2017 Budget*.**

If asked about Debt:

- **Going forward, we will reduce Ontario's net debt-to-GDP ratio to its pre-recession level.**

- **An October 2016 Moody's report stated that even though Ontario's "debt issuance will continue, the growth of debt will be reduced and will be lower than that of revenue growth over the medium-term, resulting in a declining trend for the province's debt burden." They also believe that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."**

If asked about Path to Balance:

- **We are beating our fiscal targets and eliminating the deficit through a fair and balanced approach.**

    - **The *2016 Budget* focused on strategic investments that will stimulate economic growth and job creation.**
    - **At the same time, our government continues to manage growth in program spending. We have achieved this by finding new and more efficient ways to deliver the best value for Ontarians.**
    - **In addition, our government continues to focus on combatting the underground economy, as well as provide a level playing field for businesses.**

KEY QUOTES FROM FAO REPORT

"The government has reaffirmed its commitment to achieve balance in 2017-18 and maintain balance going forward. However, based on the FAO's analysis of the economic outlook and the government's current fiscal position, Ontario's budget would be expected to remain in deficit over the next five years. Achieving and maintaining balance will likely require additional measures to raise revenue or reduce expense." (pg. 2)

"The FAO is projecting Ontario budget deficits of $5.2 billion in 2016–17 and $2.6 billion in 2017–18. …This fiscal projection reflects the legislated change in the accounting treatment of jointly sponsored pension plans in 2015–16, which the FAO assumes will remain in place over the outlook." (pg. 15)

"The FAO forecast adopts the government's outlook for program spending, adjusted for new fiscal developments [electricity cost relief, new child care spaces, and pension adjustment]." (pg. 23)

"There are a number of material risks that could impact Ontario's fiscal position…At the same time, the government has a broad range of policy options that could improve the fiscal position, including the sale of additional public assets beyond announced targets, or by applying new revenues (from cap and trade or new federal transfer) to existing program spending." (pg. 24)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Thursday, November 3, 2016, which assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

REPORT SUMMARY

The report is divided into two main chapters:

1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2020, and includes a discussion of potential risks.
2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2020-21.

The fall report incorporates economic and fiscal information released since the FAO's spring 2016 report. This includes:

- New economic data that impacts the revenue and interest on debt outlooks;
- New spending commitments from the Speech from the Throne; and
- Information from the Public Accounts of Ontario for 2015-16.

Economic Outlook

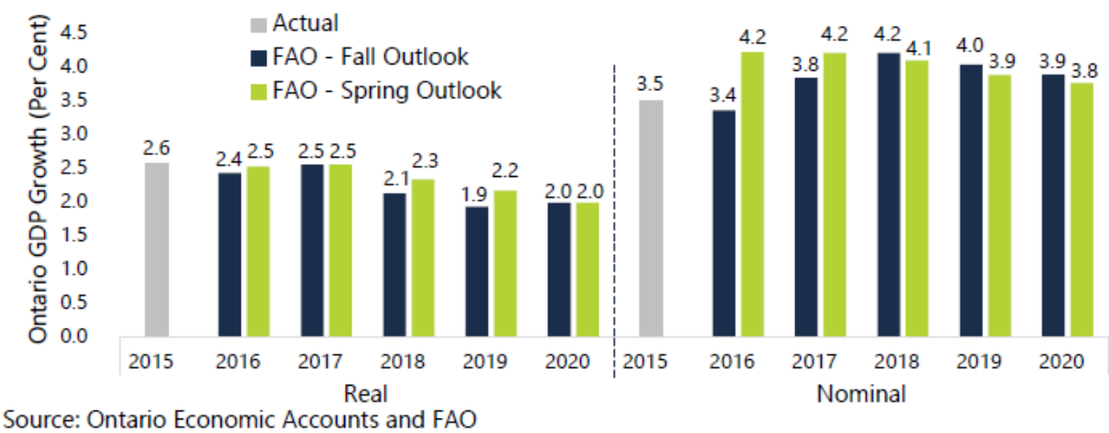
The FAO has modestly revised down its forecast for Ontario real GDP growth, on average, over the 2016 to 2020 period relative to its spring forecast. The nominal GDP growth forecast for 2016 and 2017 was revised down, but modest upward revisions were made to 2018-2020.

The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall growth over the next several years.

The FAO forecast for real GDP growth is similar to the preliminary *FES forecast* between 2016 and 2019.

The FAO believes the balance of the risks to the economic outlook is tilted to the downside. (p. 14)

The FAO's Revised Economic Outlook



Source: Ontario Economic Accounts and FAO

1 See Appendix for detailed forecast tables.
2 'Economic and Fiscal Outlook, Assessing Ontario's Medium Term Prospects, Spring 2016', Financial Accountability Office of Ontario.

Fiscal Outlook

The FAO has indicated that "the outlook for budget balance (excluding the accounting change) has deteriorated moderately" in 2017-18, compared to the spring report. (p. 16)

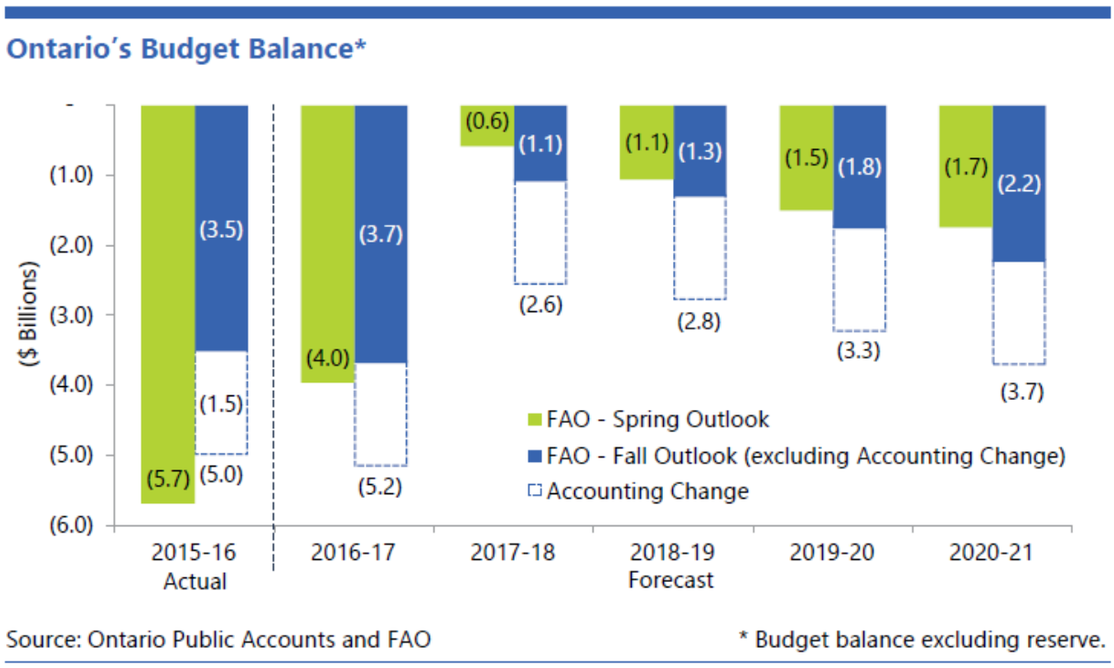
The FAO is currently projecting Ontario budget deficits of $3.7 billion in 2016-17 and $1.1 billion in 2017-18 (excluding the reserve), which represents a slight improvement in the deficit in 2016-17, but a modest deterioration in 2017-18 from the FAO's spring outlook report. This compares to 2016 Budget projections of a $3.3 billion deficit in 2016-17 and a $1.1 billion surplus in 2017-18, excluding the reserve.

The FAO has also forecasted projections for Ontario's budget deficits based on the change in the accounting treatment of pensions from the Public Accounts. It carries forward the associated $1.5 billion increase in program expense through to 2020-21, resulting in projected budget deficits of $5.2 billion in 2016-17 and $2.6 billion in 2017-18 (excluding the reserve).

Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate as a result of increases in program spending and interest on debt payments that exceed revenue growth – similar to the spring report.

Note that the 2016 Budget did not publish a fiscal outlook for 2019-20 and 2020-21.

That FAO believes that “achieving and maintaining budget balance will likely require additional measures to raise revenue or reduce expense.”



Key factors driving change since the spring 2016 FAO report include (p. 16):

- Results from the 2015-16 Public Accounts, which reported an 8.3% increase in tax revenues in 2015-16 (strong PIT revenue);
- New spending commitments, announced in the Speech from the Throne (child care spaces and HST rebate for household, farms and small businesses electricity bills);
- Lower than expected economic growth in 2016 and 2017, which moderately dampens the expected growth in tax revenues; and
- Lower interest on debt payments.

Change in the Budget Balance since the FAO's Spring Outlook

($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Spring Outlook Budget Balance	**-4.0**	**-0.6**	**-1.1**	**-1.5**	**-1.7**
2015-16 Public Accounts[1]	0.4	0.6	0.7	0.7	0.7
Throne Speech Announcements	-0.3	-1.4	-1.8	-1.8	-1.8
Updated economic and demographic data	-0.4	-0.8	-0.6	-0.6	-0.8
Interest on Debt[2]	0.4	0.8	0.9	0.9	0.9
Other[3]	0.2	0.3	0.4	0.5	0.5
Total	**0.3**	**-0.5**	**-0.2**	**-0.3**	**-0.5**
Updated Budget Balance	**-3.7**	**-1.1**	**-1.3**	**-1.8**	**-2.2**
Accounting Change	-1.5	-1.5	-1.5	-1.5	-1.5
Updated Budget Balance with Accounting Change	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**

1 Excludes $1.5 billion impact of the change in the accounting treatment of jointly sponsored pension plans.
2 Captures impact of lower interest rates as well as changes in borrowing.
3. Reflects a change in the forecasting methodology for income from government business enterprises, which is now based on the 2016 Budget projection to 2018-19.

Note: Positive values indicate improvement in budget balance (i.e. lower deficit). Numbers may not add due to rounding.
Source: FAO

Revenue Assumptions

From 2015-16 to 2018-19, FAO projects 2.9% total revenue growth and 2.4% taxation revenue growth. This is down from comparable growth rates in the FAO spring outlook of 3.2% and 2.8% respectively. Key changes since the spring report include:

- Higher taxation revenues reported in the 2015-16 Public Accounts which raise tax revenues over the outlook, and
- A weaker economic outlook, especially for corporate profits.

The FAO revenue outlook does not carry all of the increase in personal income tax revenues forward over the medium term, but assumes that $600 million represents one time income shifting, from 2016 to 2015, among high income earners related to an increase in the top federal rate in 2016.

The FAO largely adopts *2016 Budget* assumptions for 2016-17 for federal transfers, net income from government business enterprises and other non-tax revenues. The FAO outlook does, however, assume declining Equalization payments over the medium term.

FAO revenue growth assumptions are lower than the *2016 Budget* which projected average annual growth between 2015-16 and 2018-19 of 3.9% for total revenue and 3.4% for taxation revenue.

Expense Assumptions

Similar to its spring report, the FAO assumes the same program expense outlook as the 2016 Budget up to 2018-19, but adjusts this outlook upwards to incorporate (p. 5-6):

- The estimated impact of new initiatives announced in the Speech from the Throne (Child Care Expansion and Electricity Price Mitigation).

- An annual increase of $1.5 billion due to the change in pension asset accounting, carried forward from 2015-16 Public Accounts.

This results in average annual growth in program expense of 2.2% between 2015-16 and 2018-19.

The FAO also projects that program spending will increase by an average of 3.4% per year between 2018-19 and 2020-21, which the FAO argues is in line with population growth and price inflation.

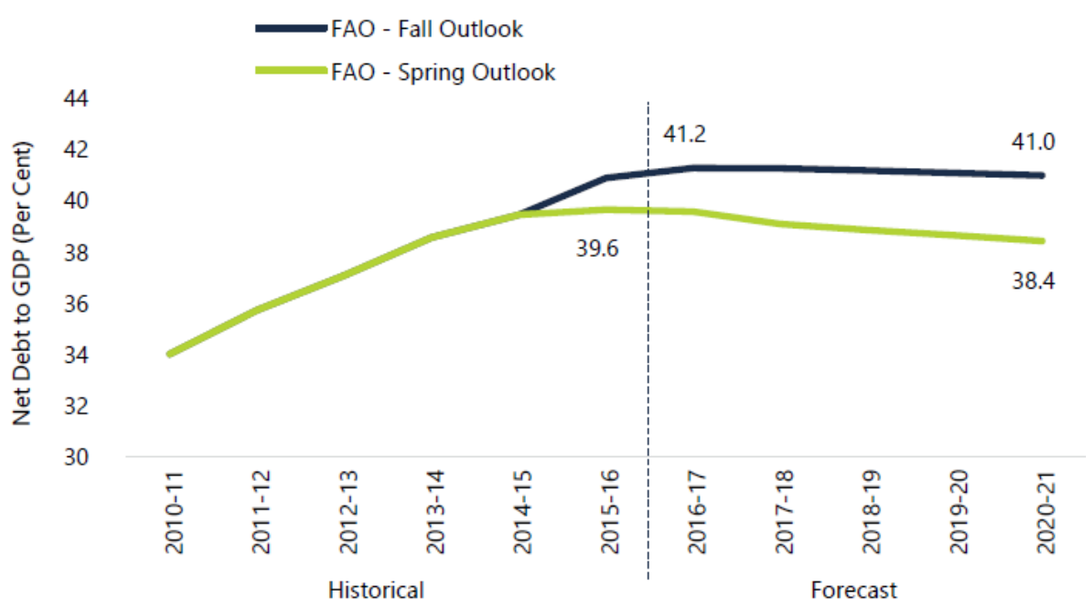
The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 2.0% over the next three years, rising to $11.6 billion by 2018-19. Over the last two years of the outlook, the FAO projects that IOD will increase more sharply, rising by 5.5% per year on average. The FAO's current outlook for IOD is $0.8 billion lower each year on average than the spring projection, reflecting the FAO's revised outlook for lower interest rates. (p. 21)

Debt Outlook

The FAO expects Ontario's net debt to rise by $64 billion over the next five years to $370 billion in 2020-21 – an increase of about $20 billion from the FAO's spring outlook – as a result of carrying forward the impact of the change in pension asset accounting included in the *2015-16 Public Accounts*, capital spending for infrastructure and cumulative deficits. (p. 2)

The accounting change as well as slower growth in nominal GDP, results in a higher net debt-to-GDP ratio relative to the FAO spring outlook and the *2016 Budget* forecast; 41.2% in 2016-17 declining to 41.0% by 2020-21.

Ontario's Net Debt to GDP Ratio



Source: Ontario Public Accounts and FAO

Risks and Policy Options

The FAO notes the following risks to Ontario's fiscal plan (p. 23):

- Actual economic growth could be weaker than projected, lowering tax revenues;
- Further program expense increases – citing that the "government has increased planned spending for 2017-18 in each of the last three budgets".

Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets and applying new revenue (cap and trade and federal transfers) to existing program spending commitments. (p. 24)

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Date Prepared: November 3, 2016
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November 3, 2016

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APPENDIX A – Detailed Comparison of Outlooks

Comparison: 2016 Budget Fiscal Outlook and the Fall FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								15-16 to	18-19 to	15-16 to
$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	18-19	20-21	20-21
2016 Budget										
Revenue	118.5	128.4	130.6	137.7	141.9			3.4%		
Expense										
Program Expense	118.2	122.4	122.1	124.2	127.6			1.4%		
Interest on Debt	10.6	11.0	11.8	12.5	13.1			6.1%		
Total Expense	128.9	133.4	133.9	136.6	140.7			1.8%		
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(3.3)**	**1.1**	**1.2**					
Reserve	-	-	1.0	1.1	1.2					
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**(4.3)**	**0.0**	**0.0**					
Net Debt	284.6	305.2	308.3	316.9	326.8					
Change										
Revenue	-	-	*(0.7)*	*(1.8)*	*(2.2)*					
Expense	-	-								
Program Expense	-	-	*1.8*	*3.0*	*3.3*					
Interest on Debt	-	-	*(0.6)*	*(1.2)*	*(1.5)*					
Total Expense	-	-	*1.2*	*1.9*	*1.8*					
Surplus/(Deficit) Excl. Reserve	**-**	**-**	***(1.9)***	***(3.7)***	***(4.0)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	**-**	**-**	***n/a***	***n/a***	***n/a***					
Net Debt	-	-	*10.2*	*13.6*	*17.0*					
FAO Fall 2016 Report										
Revenue	118.5	128.4	129.9	135.9	139.7	144.2	149.1	2.9%	3.3%	3.0%
Expense										
Program Expense	118.2	122.4	123.9	127.2	130.9	135.3	139.9	2.3%	3.4%	2.7%
Interest on Debt	10.6	11.0	11.2	11.3	11.6	12.2	12.9	1.9%	5.5%	3.3%
Total Expense	128.9	133.4	135.1	138.5	142.5	147.5	152.8	2.2%	3.6%	2.8%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	305.2	318.5	330.5	343.8	356.8	369.7			
Pension Adjustment	-	1.5	1.5	1.5	1.5	1.5	1.5			
Surplus/(Deficit) Excl. Reserve and Pension	**(10.3)**	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**			

Note: Numbers may not align with report due to rounding.

Comparison: Spring FAO Outlook Compared to Fall FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	15-16 to 18-19	18-19 to 20-21	15-16 to 20-21
FAO Spring 2016 Report										
Revenue	118.5	126.4	129.7	135.7	139.1	143.6	148.6	3.2%	3.5%	3.3%
Expense										
Program Expense	118.2	120.9	122.1	124.2	127.6	132.0	136.5	1.8%	3.4%	2.5%
Interest on Debt	10.6	11.2	11.6	12.1	12.5	13.1	13.8	3.7%	5.1%	4.3%
Total Expense	128.9	132.1	133.7	136.3	140.1	145.1	150.3	2.0%	3.6%	2.6%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.7)**	**(4.0)**	**(0.6)**	**(1.1)**	**(1.5)**	**(1.7)**			
Reserve	-	n/a	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	296.3	308.2	317.4	328.3	339.4	350.2			
Change										
Revenue	-	*2.0*	*0.2*	*0.2*	*0.6*	*0.6*	*0.5*			
Expense	-	-								
Program Expense	-	*1.5*	*1.8*	*3.0*	*3.3*	*3.3*	*3.4*			
Interest on Debt	-	*(0.2)*	*(0.4)*	*(0.8)*	*(0.9)*	*(0.9)*	*(0.9)*			
Total Expense	-	*1.3*	*1.4*	*2.2*	*2.4*	*2.4*	*2.5*			
Surplus/(Deficit) Excl. Reserve	**-**	***0.7***	***(1.2)***	***(2.0)***	***(1.7)***	***(1.8)***	***(2.0)***			
Reserve	-	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*			
Surplus/(Deficit)	**-**	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***			
Net Debt	-	*8.9*	*10.3*	*13.1*	*15.5*	*17.4*	*19.5*			
FAO Fall 2016 Report										
Revenue	118.5	128.4	129.9	135.9	139.7	144.2	149.1	2.9%	3.3%	3.0%
Expense										
Program Expense	118.2	122.4	123.9	127.2	130.9	135.3	139.9	2.3%	3.4%	2.7%
Interest on Debt	10.6	11.0	11.2	11.3	11.6	12.2	12.9	1.9%	5.5%	3.3%
Total Expense	128.9	133.4	135.1	138.5	142.5	147.5	152.8	2.2%	3.6%	2.8%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	305.2	318.5	330.5	343.8	356.8	369.7			

Note: Numbers may not align with report due to rounding.

From:	Christina Zhang
To:	"Ize-Dukuze, Marilyn (MOF)"
Subject:	FW: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx
Date:	Tuesday, October 04, 2016 2:51:01 PM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

FYI. Here are our approved edits. Summary in the email below.

Thanks,
Christina

From: Bonnie Lemcke
Sent: Tuesday, October 04, 2016 12:49 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Hi Christina,

I made a couple of small additions to Q57 and 58 (see attached). Please wait until Mike/Jim confirm the last point before we send.

1. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

2. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies

to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government’s responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Bonnie

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is

different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. What does this mean for the Fall Economic Statement?

We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. Is this Public Accounts or not?

From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?

Response TBC

11. Why are you doing this today, four days after you announced the delay?

Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for

users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the

Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit

rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings,

playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From:	Ken Kandeepan
To:	Mike Manning; Bonnie Lemcke
Cc:	Christina Zhang
Subject:	FW: Release of 2015-16 Annual Report and Consolidated Financial Statements - Revised Communications Materials
Date:	Monday, October 03, 2016 9:32:25 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 12 10 am).docx ATT00001.htm

Pls see attached, pls don't raise this issue until after the public announcement.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 03, 2016 12:24 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: Release of 2015-16 Annual Report and Consolidated Financial Statements - Revised Communications Materials

Begin forwarded message:

> **From:** "DiMuzio, Sofie (TBS)" <Sofie.DiMuzio@ontario.ca>
> **Date:** October 3, 2016 at 12:17:03 AM EDT
> **To:** "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>, "Tedesco, Lauren (TBS)" <Lauren.Tedesco@ontario.ca>, "Ingram, Kelsey (MOF)" <Kelsey.Ingram@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, "Bardeesy, Karim (OPO)" <Karim.Bardeesy@ontario.ca>, "Maddock, Michael (CAB)" <Michael.Maddock@ontario.ca>, "MacKenzie, Rebecca (OPO)" <Rebecca.MacKenzie@ontario.ca>, "McEachern, Gillian (OPO)" <Gillian.McEachern@ontario.ca>, "Killorn, Bill (OPO)" <Bill.Killorn@ontario.ca>, "Mksyartinian, Jacob (OPO)" <Jacob.Mksyartinian@ontario.ca>, "Ostergard, Matt (TBS)" <Matt.Ostergard@ontario.ca>, "Pichelli, Jason (TBS)" <Jason.Pichelli@ontario.ca>, "Farrow, Alicia (CAB)" <Alicia.Farrow@ontario.ca>, "Petsche, Nadine (TBS)"

<Nadine.Petsche@ontario.ca>, "Bossin, Bryan (OPO)" <Bryan.Bossin@ontario.ca>

Subject: Release of 2015-16 Annual Report and Consolidated Financial Statements - Revised Communications Materials

Please find attached the revised communications materials incorporating all the latest edits. Qs and As still require a few missing pieces of information and will updated first thing in the morning.

Thank you

Sofie Di Muzio
Director (A), Communications Branch
Treasury Board Secretariat

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around a complex accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report which includes the unaudited Consolidated Financial Statements we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection. As I assured in the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then reviews this.

Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015-16 Public Accounts. We did so because this year, the Auditor General the Province' with a new interpretation of public sector accounting standards as related to the accounting treatment of jointly-sponsored pension plans and are subject to a range of interpretations.

Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences of opinion.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two

years, resulting in unqualified – or clean audit opinions. Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances as soon as possible.

The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

It is also important to stress that the two pension plans in question – the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan – are both healthy and well funded.

Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

Our officials and professional accounting staff will continue to work with the Auditor General's office to resolve this complex accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, statutory authority has been used to regulate the accounting treatment for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, public servants could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans. The regulation was needed to allow civil service accountants to sign off on the Public Accounts without compromising their professional credentials.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected
Province Remains Committed to Balance the Budget by 2017-18

News

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of Province's financial statements.

A regulation is required to allow civil service accountants to sign off on the financial statements without compromising their professional credentials. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements.

The statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by

6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was faster than that of the United States and the G7.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this national discussion. The Province will also consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTE

"The Annual Report and Consolidated Financial Statements for 2015-16 show that our government's plan to achieve fiscal balance by 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario."

- Liz Sandals, President of the Treasury Board

"The government is dedicated to a fiscally sound approach to managing the Province's finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues."

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- The Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 Financial Statements [update hyperlink]
- Explore supplementary information available through new data visualization tools [insert hyperlink]
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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Newsroom Backgrounder

Ontario's 2015-16 Financial Statements

The 2015-16 Annual Report and Consolidated Financial Statements show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, and $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

Accounting Standards

Treasury Board Secretariat prepares the financial statements of Ontario in accordance with the legislation and accounting principles and standards for governments recommended by the Public Sector Accounting Board.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting.

The Release of Ontario's 2015-16 Financial Statements

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets, a topic subject to a range of interpretations.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, the provincial Cabinet approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General in the last ten days.

The effect of the legislation is to reflect the fiscal impact of the AG's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not provided an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that it can table the Public Accounts with the Lieutenant Governor in Council.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this

national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies practices, has acknowledged the consistent basis used by Ontario for its Budget, Estimates and Public Accounts as a best practice to supporting transparency and accountability.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables.
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts.

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing 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 totalling up to at least $16.50 per hour by April 1, 2016.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance and expand access to high quality college and university education.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province’s history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province’s history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.

- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.

- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional staff and the Auditor General continue to have differences of interpretation

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new

interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. **If PSAB is studying this issue, are other Canadian jurisdictions dealing with this as well?**

   No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

   Nadine to provide response re BC / New Brunswick

4. **What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?**

Nadine to provide response

5. **Are you saying the Auditor General is misinterpreting PSAB standards?**

   Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of interpretation.
   Nadine to provide response

6. **If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?**

   If the Auditor General had agreed with us, the province's deficit for 2015-16 would have been $3.5 billion.

7. **The province has been treating pensions the same way since 2001. When did the Auditor tell you about this new accounting treatment?**

   Well into this year's audit, the AG came to a view which she communicated to the Province on September 13.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial consideration before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   No. However, the treatment applied is consistent with the fiscal outcome proposed by the Auditor General.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

We wanted to allow the Auditor General time to provide an audit opinion on the Province's financial statements. Given we have not received an opinion, we felt it was in the public interest to release our financial statements in order to be open and transparent.

12. On what exactly do you disagree with the Auditor?

This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General in the last 10 days.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

13. If you think you're right, why would you change the numbers?

We are releasing now to ensure transparency about the province's financial position. Our results are consistent with the fiscal outcome proposed by the Auditor General. We also want to be transparent that there is still a disagreement about the treatment of pension assets.

We believe it's in the public that there be no disagreement in order to finalize the numbers. We will continue to work with the Auditor General to resolve this matter.

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. Our Financial Statements reflect the fiscal outcome proposed by the Auditor General.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The government is now including five-year trends in its Public Accounts. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can table the Public Accounts with the Lieutenant Governor in Council as soon as possible

TBC Legal

19. Has this ever happened before in Ontario? Anywhere else in Canada?

This has never happened before in Ontario.

TBC Nadine re other experience in Canadian jurisdictions

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

We are presenting the numbers that the Auditor General requested.

In the course of developing its 2015-16 financial statements, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

This is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review it. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to expedite the tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Public Service Pension Plan is nearly fully funded at 98%.

Both plans exceeded their target long-term rates of return in 2015. The Public Service Pension Plan achieved a 6.14% return and the OPSEU Pension Plan achieved an 8.0% return.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

TBC OPCD

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

We have been working with the Office of the Auditor General to try to come to an agreement on this issue since it was first raised.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to

ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes. The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.
The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult

individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Answer below needs fact check by OPCD

Our financial statements include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.
The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the AG's numbers be?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the house there will be delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

36. Clearly the government is in a spat with the AG – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the AG?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the AG's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current

Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

TBC Nadine

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial results provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

TBC Legal on question of whether it is legal for AG not to issue an opinion

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this complex accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the AG – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)

- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual

deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20.6 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Ontario.ca landing page

Ontario's unaudited 2015-16 Annual Report

The Annual Report looks back at the government's revenues and expenses. It compares and explains the province's financial performance with the goals outlined in the budget.

Overview

The unaudited 2015-16 Annual Report presents the government's financial statements and provides a picture of how finances were managed over the last fiscal year (April 1 to March 31).

The unaudited Annual Report is made up of:

- a financial statement, discussion and analysis
- consolidated financial statements
- three supporting volumes

As part of our Open Government initiative, you can find additional tools, features and tables to make the government's financial information easier to access, use and understand.

Financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

Read the financial statement, discussion and analysis (2015-16) <insert link>

See the government's five-year trends <insert link>

Unaudited Consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

Volume 1: ministry statements and schedules (unaudited)

Volume 1 contains ministry statements, detailed schedules of debt and other items. This volume details where government revenue comes from, including taxes, non-tax revenue and income from enterprises (such as the LCBO), alongside the expenses of ministries.

Read Volume 1 (2015-16) <insert link>

This graphic visualizes ministry spending information in Volume 1 of the unaudited 2015-16 Annual Report, not including financial reimbursements or recoveries. Financial reimbursements or recoveries include internal chargebacks between ministries for shared services, as well as reimbursements from external sources for the delivery of services. As a result, some amounts may differ from those in the unaudited Annual Report.

[data tree map visualization]

Select a ministry to learn more about their spending. You can also download the 2015-16 Annual Report data to create your own visualization.

Get Volume 1 data <insert link>

Volume 2: financial statements of government organizations and business enterprises

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Read Volume 2 (2015-16) <insert link>

Volume 3: detailed schedules of payments (unaudited)

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Read Volume 3 (2015-16) <insert link>

2015-16 Annual Report: financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

See the government's five-year trends <insert link>

2015-16 Annual Report: unaudited consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

2015-16 Annual Report: Volume 2

Volume 2 contains the individual financial statements of government organizations, business enterprises and other miscellaneous financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Volume 2 PDFs

- Read Volume 2a: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2b: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2c: Financial Statements of Government Business Enterprises, Trusts and Miscellaneous statements (2015-16) <insert link>

Government Organizations Summary

<Insert DATA TABLE from “PA vol2 government organizations MMDDYYYY.csv” here>

Government Business Enterprises Summary

<Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” >

Trusts Summary

<Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” >

2015-16 Annual Report: Volume 3

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Download the PDF for Volume 3: Detailed Schedules of Payments <insert link>

Detailed Schedules of Payments

<Insert DATA TABLE from “PA vol3 MMDDYYYY.csv”>

From:	Christina Zhang
To:	Ken Kandeepan
Subject:	FW: SCOPA 2016 | Briefing Binders | Materials
Date:	Wednesday, October 05, 2016 10:40:17 AM
Attachments:	Tab 1 AG 2015 Annual Report - Chapter 2.pdf Tab 3.1 Deputy Orencsak Remarks.pdf Tab 3.3 Gadi Maymans Remarks.pdf Tab 3.4 Tom Teahen DRAFT Remarks.pdf Tab 2.1 Status Report for the Auditor General's 2015 Annual Report.pdf Tab 2.2 SCOPA Logistics BN.PDF Tab 5.2 TBS Questions and Answers.pdf Tab 4 Friendly Questions.pdf Tab 6 2015-16 Public Accounts Q&As.pdf Tab 8.1 Questions from Committee Members on AG 2014 Annual Report as per Hansard.pdf Tab 7.1 MOF CINs.pdf TOC_SCOPA 2016.pdf SCOPA_Remarks_MOF Deputy Thompson_v11 100416 130 pmrevised.docx
Importance:	High

Hi Ken,

This is what I was referring to. Attached are the latest materials, as of 8:30pm last night at least. I've also attached the latest version of Scott's remarks.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Tuesday, October 04, 2016 8:40 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Sofie DiMuzio (MGS) <Sofie.DiMuzio@ontario.ca>; Travis Coulter (TCU) <Travis.Coulter@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; David Morris (MAG) <David.Morris@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Greg Orencsak (MOF) <Greg.Orencsak@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Bruno Amara (MOF) <Bruno.Amara@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nicole Simone (MOI) <Nicole.Simone@ontario.ca>; Rebecca Morier (MOF) <Rebecca.Morier@ontario.ca>; Ostergard, Matt (TBS) <Matt.Ostergard@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Bryant Sullivan (MAG) <Bryant.J.Sullivan@ontario.ca>; Dianne Lone (MOF) <Dianne.Lone@ontario.ca>; Jason Wesley (MGS) <Jason.2Wesley@ontario.ca>; Kyle MacIntyre (MOF) <Kyle.MacIntyre@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Mercedes Sawosch (CAB) <Mercedes.Sawosch@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Kearney, Heather (MOF) <Heather.Kearney@ontario.ca>; Lauren Tedesco (EDU) <Lauren.Tedesco@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Saad Baig (MOI-MTO) <Saad.Baig@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Dale, Lindsay (MOF)

<Lindsay.Dale@ontario.ca>
Subject: SCOPA 2016 | Briefing Binders | Materials
Importance: High

Hi –

Please see attached materials for the SCOPA Briefing Binders. These incorporate edits from the 12pm discussion. Physical copies of the binders will be available tomorrow at 9am, in the DMO suite at Frost South.

Please refer to the updated TOC to navigate the products.

Unfortunately, the following items remain outstanding from these attachments, but will be added by your EA tomorrow morning once finalized:

- Tab 5.1. MOF Questions and Answers
- Tab 7.2. TBS CINs & Key Highlights

Thanks,
Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

Chapter 2

Public Accounts of the Province

Introduction

Ontario's Public Accounts for the fiscal year ending March 31, 2015, were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act* (Act) and the President of the Treasury Board. The Public Accounts consist of the province's Annual Report, including the province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records.

My Office audits these consolidated financial statements. The objective of our audit is to provide reasonable assurance that the statements are free of material misstatements—that is, free of significant errors or omissions. The consolidated financial statements, along with my Independent Auditor's Report, are included in the province's Annual Report.

The province's 2014/15 Annual Report also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ended March 31, 2015. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1—statements from all ministries and a number of schedules providing details of the province's revenue and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- Volume 2—audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous audited financial statements; and
- Volume 3—detailed schedules of ministry payments to vendors and transfer-payment recipients.

My Office reviews the information in the province's Annual Report, and in Volumes 1 and 2 of the Public Accounts, for consistency with the information presented in the province's consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its Annual Report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The three supplementary volumes must be submitted to

the Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the province's 2014/15 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on September 28, 2015, meeting the legislated deadline.

In conducting our annual audit of the Public Accounts we work closely with the Treasury Board Secretariat and particularly with the Office of the Provincial Controller and the Ministry of Finance. While we might not always agree on financial reporting issues, our working relationship has always been professional and constructive.

Summary

A major area of commentary in our *2014 Annual Report* focused on Ontario's growing debt burden. As a follow-up, we discuss the topic this year, focusing on the critical implications of the growing debt for the province's finances. Increases in the debt are attributable to continued government borrowing to finance deficits and infrastructure spending. Although the debt has been growing at a somewhat lower rate than last year's estimates, it continues to rise.

The negative impacts of a large debt burden include:

- debt-servicing costs divert funding away from other government programs;
- a greater vulnerability to any interest-rate increases; and
- potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive for Ontario to borrow.

Consistent with our commentary last year, we continue to take the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt, and we again recommend that the government develop a long-term debt-reduction plan.

We also report in this chapter that the province's consolidated financial statements consistently comply with the standards of the Public Sector Accounting Board (PSAB) in all material respects. Successive governments have been diligent in their continued efforts to improve the clarity and completeness of the province's consolidated financial statements and Annual Report. This was demonstrated in this year's Public Accounts, with the province recognizing an additional $1.7 billion in environmental liabilities in its March 31, 2015 Consolidated Financial Statements, in accordance with PSAB's new accounting standard, *PS 3260, Liability for Contaminated Sites*, which addresses accounting for, and reporting liabilities associated with, contaminated sites and their remediation.

We also reviewed the content of the Financial Statement Discussion and Analysis (FSD&A) included in the province's Annual Report. Overall, we believe the FSD&A is easy to understand and highlights the financial management principles underlying the province's financial results and actual-to-budget variances during the past year. However, we have identified a number of areas where additional information to improve insight into the province's financial position and annual operating results for the year could be incorporated into the FSD&A.

It is our view that PSAB standards are the most appropriate for the province to use in preparing the consolidated financial statements. This ensures that information provided by the government about the surplus and the deficit is fair, consistent and comparable to data from previous years. This allows legislators and the public to better assess government management of the public purse.

However, we note PSAB faces challenges in reaching a consensus among its various stakeholders, including auditors and those who prepare financial statements, on what accounting standards are most appropriate for the public sector. In this Annual Report, we discuss three significant accounting issues that PSAB has been addressing on an ongoing basis. We further outline PSAB initiatives relating to the development of new accounting standards that might impact the preparation of the province's consolidated financial statements in the future.

We also raise again the issue of Ontario having introduced legislation on a number of occasions to establish specific accounting practices that are not, in some cases, consistent with PSAB. Up to now, this has not had any material impact on the province's consolidated financial statements. However, the use of existing legislated accounting treatments by the government on future transactions, or the introduction by the government of further legislated accounting treatments, could make this a greater concern to my Office that the financial results of the province may not be fairly stated. Therefore, standard-setters, governments and auditors must work together in the public interest to resolve financial reporting issues faced by governments and public-sector entities.

The Province's 2014/15 Consolidated Financial Statements

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. I am pleased to note that my Independent Auditor's Report to the Legislative Assembly on the province's Consolidated Financial Statements for the year ended on March 31, 2015, is free of reservations. It reads as follows:

Independent Auditor's Report

To the Legislative Assembly of the Province of Ontario

I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations, change in net debt, change in accumulated deficit and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Government of Ontario is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2015, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[signed]

Toronto, Ontario
August 21, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

The above audit opinion is without any reservation, indicating that the consolidated financial statements fairly present the province's fiscal results for the 2014/15 fiscal year and its financial position at March 31, 2015 in accordance with Public Sector Accounting Board standards. This "clean" audit opinion means that, based on our audit work, we have concluded that the province's consolidated financial statements were prepared in accordance with accounting standards recommended for governments by the Chartered Professional Accountants of Canada (CPA Canada). We are also communicating to users that the province's consolidated financial statements do not have any material or significant errors and provide a fair reflection of what has actually transpired during the year.

If we were to have concerns with the government's compliance with CPA Canada's recommended Public Sector Accounting Board (PSAB) standards, we may be required to issue an audit opinion with a reservation. An audit opinion with a reservation means significant financial transactions have not been recorded, have not been recorded properly, or have not been disclosed properly in the notes to the province's consolidated financial statements.

In determining whether a reservation is needed, we consider the materiality or significance of the unrecorded, misstated or improperly disclosed items in relation to the overall consolidated financial statements. An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. Essentially, we ask the question "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission material.

To help make this assessment, we determine a materiality threshold. This year, as in past years and consistent with most other provincial jurisdictions, we set the threshold at 0.5% of the greater of government expenses or revenue for the year. If misstated items individually or collectively exceed this threshold, and management is not willing to make appropriate adjustments, a reservation in our Independent Auditor's Report would be required.

My Office has been working closely with the Office of the Provincial Controller Division of the Treasury Board Secretariat over the years to enhance the usefulness, readability and transparency of Ontario's Annual Report and consolidated financial statements, so we were pleased to see

a recent report from the C.D. Howe Institute on federal and provincial reporting practices that recognized these enhancements. Ontario received a grade of "A," ranking it among the best in the overall quality of its reporting on financial results. A major aim of the C.D. Howe report is to celebrate the relatively transparent reporting in New Brunswick, Saskatchewan, Ontario and Ottawa, and to encourage other jurisdictions to raise their game.

As a final comment, it is notable that in the past 22 years, all Ontario governments regardless of their political party have complied in all material respects with approved accounting standards. Accordingly, our Office has been able to issue "clean" audit opinions on the province's consolidated financial statements every year since the province adopted PSAB accounting standards in the 1993/94 fiscal year.

Update on Ontario's Debt Burden

In our *2014 Annual Report*, we commented on Ontario's growing debt burden, attributable to its large deficits in recent years and its investments in capital assets such as infrastructure. We noted that the province has been able to rely on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself, whether measured as total debt, net debt or accumulated deficit, continued to grow. **Figure 1** shows the province's debt levels continue to rise, though at a lower rate than projected last year.

- **Total debt** is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, T-bills and U.S. commercial paper. Total debt provides the broadest measure of a government's debt load.
- **Net debt** is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- **Accumulated deficit** represents the sum of all past annual deficits and surpluses of the government. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

Figure 1: Total Debt, Net Debt, and Accumulated Deficit, 2009/10–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 Ontario Budget and Office of the Auditor General of Ontario

	Actual ($ million)						Estimate ($ million)		
	2009/10[1]	2010/11[1]	2011/12[1]	2012/13[1]	2013/14[1]	2014/15[2]	2015/16[1]	2016/17[1]	2017/18[1]
Total debt	212,122	236,629	257,278	281,065	295,758	314,960	323,619	334,800	341,400
Net debt	193,589	214,511	235,582	252,088	267,190	284,576	298,864	311,500	319,500
Accumulated deficit	130,957	144,573	158,410	167,132	176,634	187,511	194,848	199,700	199,700

1. 2015 Ontario Budget
2. 2014/15 Province of Ontario Consolidated Financial Statements

Main Contributors to Net Debt

The province's growing net debt since the end of the 2008/09 fiscal year is attributable to its large deficits in recent years, along with its investments in capital assets such as buildings, other infrastructure and equipment acquired directly or through public-private partnerships for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 2**.

While annual deficits are projected to decline, the province is still increasing its borrowings annually to finance these deficits, replace maturing debt and to fund infrastructure. In fact, the net debt is projected to continue growing in absolute terms even after the province starts to run annual budget surpluses. The province can begin paying down its debt only when such future surpluses provide cash flows over and above the amounts required to fund government operations and net investments in tangible capital assets.

By the time the government projects it will have eliminated the deficit in 2017/18, Ontario's net debt will have doubled over a 10-year period, from $156.6 billion in 2007/08 to over $319.0 billion by 2017/18. We estimate total debt will exceed $340.0 billion by 2017/18.

To put this debt in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $12,000 per person in 2008 to about $23,000 per person in 2018. In other words, to eliminate Ontario's net debt, each Ontarian would need to contribute $23,000 to the provincial coffers.

Ontario's Ratio of Net Debt to GDP

We noted a key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. This ratio of debt to the market value of goods and services produced by an economy (the gross domestic product, or GDP) measures the relationship between a government's obligations and its capacity to raise the

Figure 2: Net Debt Growth Factors, 2009/10–2017/18 ($ million)

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 Ontario Budget and Office of the Auditor General of Ontario

	Net Debt Beginning of Year	Deficit/ (Surplus)	Net Investment in Tangible Capital Assets[1]	Miscellaneous Adjustments[2]	Net Debt End of Year	Increase/ (Decrease)
Actual						
2008/09	156,616	6,409	5,348	1,212	169,585	12,969
2009/10	169,585	19,262	5,832	(1,090)	193,589	24,004
2010/11	193,589	14,011	7,306	(395)	214,511	20,922
2011/12	214,511	12,969	7,234	868	235,582	21,071
2012/13	235,582	9,220	7,784	(498)	252,088	16,506
2013/14	252,088	10,453	5,600	(951)	267,190	15,102
2014/15	267,190	10,315	6,509	562	284,576	17,386
Estimated						
2015/16	284,576	8,500	5,788		298,864	14,288
2016/17	298,864	4,800	7,836		311,500	12,636
2017/18	311,500	-	8,000		319,500	8,000
Total over 10 years	**—**	**95,939**	**67,237**	**(292)**	**—**	**162,884**

1. Includes investments in government-owned and broader public sector land, buildings, machinery and equipment, and infrastructure assets capitalized during the year less annual amortization and net gains reported on sale of government-owned and broader public sector tangible capital assets.
2. Unrealized Fair Value Losses/(Gains) on the Ontario Nuclear Funds Agreement (ONFA) Funds held by Ontario Power Generation Inc. and accounting changes.

funds needed to meet them. It is an indicator of the burden of government debt on the economy.

If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, the ratio is rising—it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

Figure 3 shows that the province's net debt-to-GDP ratio gradually fell over a period of eight years, from a high of 32.2% in 1999/2000 to 26.2% in 2007/08. However, it has been trending upward since then, reflecting such factors as the 2008 global economic downturn, when tax revenues fell abruptly and the government increased its borrowings significantly to fund annual deficits and infrastructure stimulus spending.

The net debt-to-GDP ratio is projected to reach a high of 39.9% in each of 2015/16 and 2016/17. After this peak, the government expects the ratio will begin falling, dropping to 39.3% in 2017/18. We note a small improvement in the projected net debt-to-GDP ratio from last year's estimate, reported in the province's 2013/14 Annual Report, of 40.5% in 2015/16, 40.3% in 2016/17, and 39.5% in 2017/18.

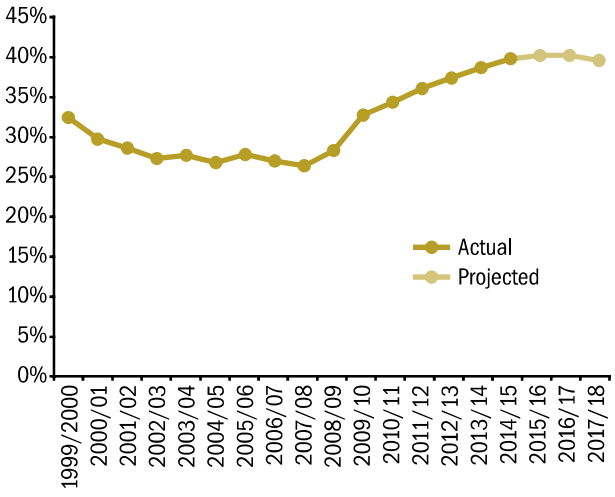
We noted in our *2014 Annual Report* that many experts believe when a jurisdiction's net debt-to-GDP ratio rises above 60%, that jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks.

We also warned it was somewhat of an oversimplification to rely on just one measure to assess a government's borrowing capacity, because that measure does not take into account Ontario's share of federal and municipal debts. If the province's share of those debts was included in its indebtedness calculations, the net debt would be much higher. However, consistent with debt-measurement methodologies used by most jurisdictions, we have focused throughout our analysis only on the provincial government's net debt.

An interesting exercise in assessing Ontario's ratio of net debt-to-GDP is to compare it with other Canadian jurisdictions. **Figure 4** shows the net debt of most provinces and the federal government, along with their respective ratios of net debt-to-GDP. Generally, the western provinces have a significantly lower net debt-to-GDP ratio than Ontario and the Atlantic provinces, and Quebec has a significantly higher ratio than Ontario.

Figure 3: Ratio of Net Debt to Gross Domestic Product (GDP), 1999/2000–2017/18

Source of data: March 31, 2015 Province of Ontario Annual Report – Financial Statement Discussion and Analysis



Note: Net debt includes broader-public-sector net debt starting in 2005/06.

Figure 4: Net Debt and the Net-debt-to-GDP Ratios of Canadian Jurisdictions, 2014/15

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Report and Consolidated Financial Statements of other provincial jurisdictions; Federal Budgets and budget updates, budgets of provincial jurisdictions; and the Office of the Auditor General of Ontario

	Net Debt ($ million)	Net Debt to GDP (%)
AB	(13,054)	(3.6)
SK	5,552	6.7
BC	38,902	16.3
NL	10,259	29.2
MB	18,963	29.8
Federal	687,000	34.8
PEI	2,149	36.0
NS	15,031	37.0
NB	12,422	38.2
ON	284,576	39.5
QC	190,402	50.7

Ratio of Net Debt to Total Annual Revenue

Another useful measure of government debt is the ratio of net debt to total annual revenues, an indicator of how much time it would take to eliminate the debt if the province spent all of its revenues on nothing but debt repayment. For instance, a ratio of 250% indicates that it would take two-and-a-half-years to eliminate the provincial debt if all revenues were devoted to it. As shown in **Figure 5**, this ratio declined from about 200% in 1999/2000 to about 150% in 2007/08, reflecting the fact that, while the province's net debt remained essentially the same, annual provincial revenue was increasing. However, the ratio has increased steadily since 2007/08 and is expected to top 238% by 2017/18. This increasing ratio of net debt to total annual revenue indicates the province's net debt has less revenue to support it.

Ratio of Interest Expense to Revenue

Increases in the cost of servicing total debt, or interest expense, can directly affect the quantity and quality of programs and services that government can provide: the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for program spending in other areas.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 6** shows, the province's interest-expense-to-total-revenue ratio decreased steadily in the decade ending in 2007/08, due mainly to a lower interest-rate environment. Because rates have been at historic lows since the beginning of this decade, both the actual and projected interest-expense-to-total-revenues ratio have held steady from 2009/10 to now at approximately 9.0% and are expected to continue to hold steady at around 9.0% to 2015/16. This is the case even as the province's total borrowings are expected to increase by approximately $111.0 billion, or 52%, from $212.0 billion to over $323.0 billion.

Based on the government's latest projections, the ratio is expected to gradually increase to 9.6% by 2016/17 and to almost 10% by 2017/18, when total debt is expected to be around $340 billion.

The province's debt also exposes it to further risks, the most significant being interest-rate risk.

Figure 5: Ratio of Net Debt as Percentage of Total Annual Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario

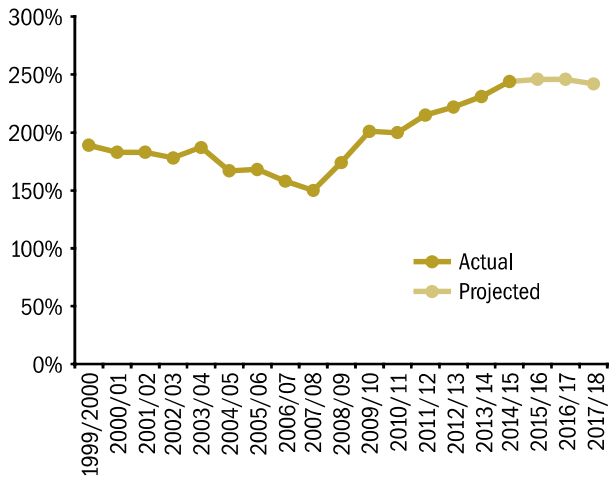
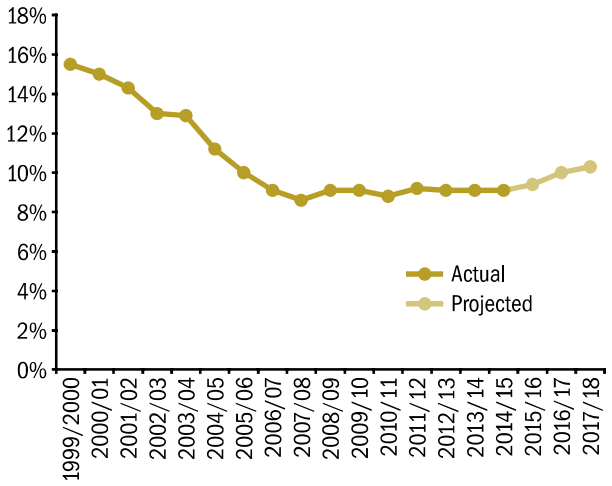


Figure 6: Ratio of Interest Expense to Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario



As discussed above, interest rates are currently at record low levels, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. However, if interest rates rise, the government will have considerably less flexibility to provide public services because a higher proportion of its revenues will be required to pay interest on the province's outstanding debt. The government has mitigated its interest-rate risk to some extent by increasing the weighted average term of its annual borrowings. In 2008/09, the average borrowing term was 8.6 years, increasing to 14.1 years in 2014/15.

The increase in the ratio of interest-expense-to-revenue, expected to begin in 2016/17, indicates the government will have less flexibility to respond to changing economic circumstances. Past government borrowing decisions mean a growing portion of revenues will not be available for other current and future government programs.

Consequences of High Indebtedness

Our commentary last year highlighted the consequences for the province of carrying a large debt load—and the same observations are relevant this year. They include the following:

- **Debt-servicing costs cut into funding for other programs:** As debt grows, so do interest costs. As interest costs consume a greater proportion of government resources, there is less to spend on other things. To put this "crowding-out" effect into perspective, the government currently spends more on debt interest than on post-secondary education.
- **Greater vulnerability to interest-rate increases:** Over the past few years, governments have generally benefitted from record-low interest rates. Ontario has been able to keep its annual interest expense relatively steady, even as its total borrowing has increased significantly. For example, it was paying an average effective interest rate of about 8% in 1999/2000, but that dropped to 3.73% in 2014/15. However, if interest rates start to rise again, the government will have considerably less flexibility to provide public services as it will have to devote a higher proportion of its revenue to interest.
- **Potential credit-rating downgrades could lead to higher borrowing costs:** Prepared by specialized agencies, credit ratings assess a government's creditworthiness largely based on its capacity to generate revenue to service its debt. They consider such factors as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks. A credit rating affects the cost of future government borrowing, with a lower rating indicating that an agency believes there is a relatively higher risk that a government will default on its debt. Accordingly, investors will lend to that government only in return for a greater risk premium, in the form of higher interest rates. A rating downgrade can also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.

Final Thoughts

We recognize that, ultimately, decisions about how much debt the province should carry, and the strategies to pay down that debt, are questions of government policy. However, as we observed last year, this should not prevent the government from providing information to promote a greater understanding of the issue and clarify the choices it is making, or will make, to address it.

We continue to believe that in light of the government's plan to eliminate its annual deficit by 2017/18, and given that its debt-carrying costs were expected to rise from their current historic lows, this would be a good time for the government, legislators and the public to start a

conversation about the potential reduction of the provincial debt.

We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits (debt used to finance infrastructure is more likely to leave behind tangible capital assets that benefit future generations).

The government has presented a plan to eliminate its annual deficit in 2017/18 by restraining spending, and committed to subsequently reducing the net debt-to-GDP ratio to the pre-recession level of 27%. However, no clear strategy has been articulated for paying down current and future debt. Regardless of what strategy is being contemplated, we believe the government should provide legislators and the public with long-term targets for its plans to address current and projected debt. Therefore, we are reiterating our recommendation from last year.

RECOMMENDATION

In order to address the province's growing total debt burden, the government should work toward the development of a long-term total-debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

TREASURY BOARD SECRETARIAT RESPONSE

The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a $130-billion plan over 10 years to invest in capital. Those capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt.

One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A recent report found that, on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term.

The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target.

The Province's Annual Report

The province's consolidated financial statements are key accountability documents that describe more than just the province's bottom line. The amounts reported in the statements, along with the notes, provide important information on the province's financial health.

However, many people, including those who do not have an accounting background, find government financial statements complicated and difficult to understand.

Each year the government provides a Financial Statement Discussion and Analysis (FSD&A) in its Annual Report to help the public understand the province's consolidated financial statements. The FSD&A is supposed to help users of the statements understand the impact of economic conditions and of government decisions on the province's financial results for the year, and its financial position at year end.

The FSD&A in this year's Annual Report compares the province's actual results for 2014/15 to the approved 2014/15 Budget presented in the previous year, and explains major variances. The Annual Report also outlines trends in a number of financial indicators over the past several years such as the composition of revenue by source and expense by sector, spending per capita (as a share of GDP), net debt to GDP and net debt per capita.

Overall, we believe the FSD&A accompanying the province's consolidated financial statements is easy to understand and highlights the financial management principles underlying the province's financial health over the past year. However, we have identified for consideration by the government a number of improvements that could be incorporated into the current FSD&A.

Strong public reports can be a powerful tool for legislators and the public to hold governments accountable, especially when the approved Budget is reflected in the report. A thorough FSD&A, in combination with audited financial statements, helps a government demonstrate its accountability with resources.

Financial Statement Discussion and Analysis

The FSD&A is an essential supplement to the basic financial statements that enhances user understanding of the results for future decision-making and accountability by presenting insights into the province's financial position and operating results for the year. For this reason, the Public Sector Accounting Board (PSAB) has developed a framework for reporting FSD&A through their Statements of Recommended Practice (SORPs).

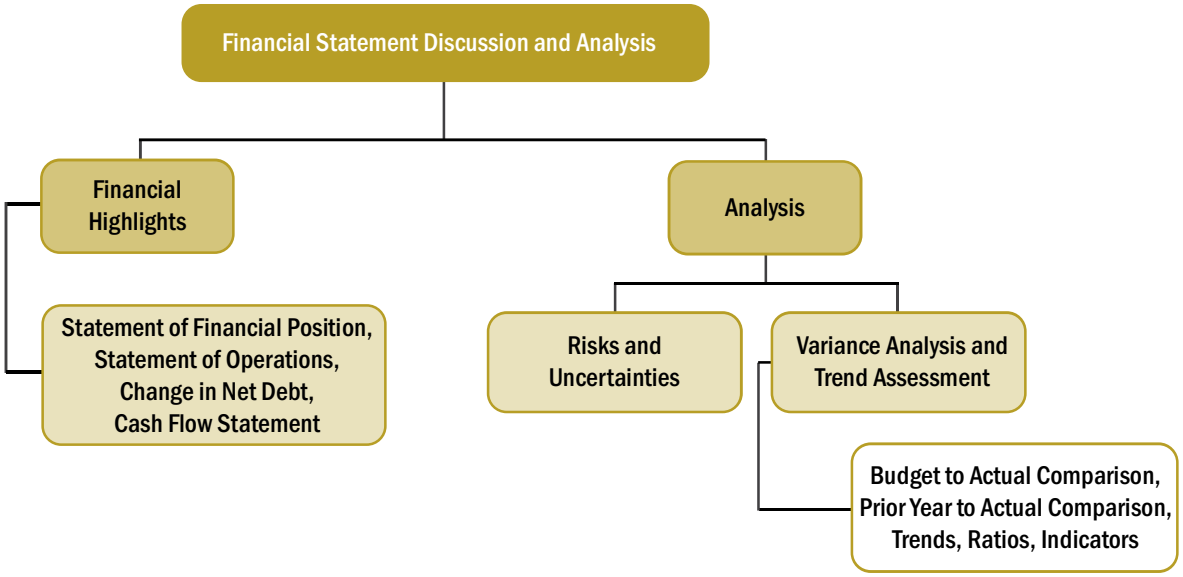
PSAB has issued four SORPs to provide general guidance on supplementary reporting beyond the financial statements. These are:

- SORP-1 *Financial Statement Discussion and Analysis*;
- SORP-2 *Public Performance Reporting*;
- SORP-3 *Assessment of Tangible Capital Assets*; and
- SORP-4 *Indicators of Financial Condition*.

The FSD&A Reporting Framework ("Framework"), discussed in SORP-1, is illustrated in **Figure 7**. The two main components are the financial highlights and analysis. While the financial highlights section summarizes significant

Figure 7: Financial Statement Discussion and Analysis Framework

Sources of data: Public Sector Accounting Board, Statement of Recommended Practice 1



events affecting the financial statements, the analysis section includes information that helps the reader understand the full story. This includes, for example, information on significant risks and uncertainties (and the strategies, policies and techniques used to manage them), significant variances between the current year's actual results and the previous year's Budget and actual results, and significant financial trends.

It is important to note that the SORPs do not form part of the PSAB accounting standards, and there is no requirement for the province to adopt them. However, PSAB encourages governments to use this Framework when preparing FSD&As to make public-sector reports more understandable.

While the province has made improvements in its financial-reporting practices, including those that relate to the province's financial condition using financial indicators as suggested in SORP-4, we have reviewed the FSD&A through the lens of the four SORPs and identified a few areas that would further support transparency and accountability.

Robust Variance Analysis on the Statement of Financial Position

All the financial statements are inter-linked and collectively reflect the province's financial health. One financial statement cannot tell a complete story. However, when all financial statements are combined, they provide powerful information for users. Similarly, the variance analysis that provides information on the financial health of the province would be incomplete without a discussion that includes the perspective of all the financial statements.

Over the past few years, we have noted that the FSD&A accompanying the province's financial statements has focused primarily on evaluating the annual revenue and expense results reported in the province's financial statements against the estimates in the Budget and to a lesser extent the previous year's actual results.

We believe that users would be better able to assess the state of the province's finances if a more robust discussion on the statement of financial position was presented in addition to a year over year comparison analysis. This would enhance readers' understanding of the demands on financial resources, and provide them with relevant information about the amount of funds readily available to meet the province's obligations and finance future operations.

Expand on Analysis of Material Risks and Uncertainties

Risks and uncertainties can have significant consequences to the province's economic well-being. FSD&A users need to understand the government's exposure to risk and uncertainties in order to make informed judgments about the implications of such risks. SORP-1 identified the three primary aspects of risks that could be addressed which include identifying the risk, assessing its potential impact and discussing the strategies and techniques adopted for managing the risk.

We realize it is a challenge to present a level of information that makes the report understandable and that enhance accountability, but we believe the FSD&A could expand its reporting of material financial risks and uncertainties.

While some of the reporting is reflected in the financial statements, information could be expanded in the FSD&A to include for example, revenue and expense sensitivities such as the impact of changes in GDP growth on taxation revenues and program expense estimates respectively. Such information would illustrate the impact of changes in the economy on financial results. We noted that prior to 2007/08 the province included this disclosure in its FSD&A.

Given that debt-carrying costs are expected to rise from their current historic lows, a broader discussion of the province's risk-management policies and strategies to address this issue would provide more value to users.

Assessment of Tangible Capital Assets

Tangible capital assets (TCAs) are a major component of the cost of the province's overall operations. Reporting on their physical condition provides important accountability information that helps users assess the government's stewardship of its resources.

PSAB issued *SORP-3 Assessment of Tangible Capital Assets* to provide guidance for those preparing a report on TCAs so that users can understand:

- the trends in the physical condition of TCAs;
- the adequacy of existing maintenance, replacement and renewal funding; and
- the current and future revenues needed to maintain, renew and replace TCAs.

TCAs are the second-largest item on the statement of financial position (after the debt), and they include administrative and service buildings, dams and engineering structures, provincial highways, bridges, hospital equipment, and many other assets.

Investing in infrastructure has been a central pillar of the province's economic plan, including a commitment to invest more than $130 billion in public infrastructure over 10 years.

The financial statements include information on the original cost of the assets and the recognition of this cost over the assets' useful life, and the FSD&A provides examples of several infrastructure projects in which the province invested during the year. We recognize that the financial statements and Annual Report may not be the ideal vehicles to meet the requirements of SORP-3. But, incorporating certain elements of the recommended practice into the province's Annual Report would be useful for users to assess the province's stewardship of these important resources.

We believe that given the importance of TCAs to the province's ability to provide services, supplemental reporting is necessary to fully understand the physical condition of the assets and the potential future cost of maintaining existing infrastructure.

RECOMMENDATION

We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

TREASURY BOARD SECRETARIAT RESPONSE

The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. We appreciate the Auditor General's recommendation to enhance the analysis provided in the Financial Statement Discussion and Analysis section of the Annual Report. We will consider how the suggestions outlined in PSAB's Statements of Recommended Practice might help to enhance the quality of the province's future reporting.

Liability for Contaminated Sites

Contamination is the introduction into the environment of hazardous substances or organisms that exceed an environmental standard. It can come from many different sources, including commercial or industrial activity, waste disposal, and spills or leaks.

Areas of land or water that are affected by contamination, such as hazardous waste or pollution in concentrations that pose health and safety risks, and exceed specific levels under environmental standards, are referred to as contaminated sites. In many cases, these sites were contaminated at a time when environmental impacts of certain activities were not understood or considered.

Remediating a contaminated site refers to actions taken to reverse or stop the damage to the environment and human health. The actions may range from removal of hazardous material to restricting access by, for example, fencing in a site. The ultimate objectives of remediation are to remove the contaminant, minimize the risks to the environment and the public, and allow for future use of the site.

A new standard issued by PSAB, entitled *PS 3260, Liability for Contaminated Sites* (PS 3260), addresses ways to account for, and report on, liabilities associated with contaminated sites, and their remediation. This standard was in effect for the province's fiscal year ending March 31, 2015.

Under PS 3260, a liability for remediation of contaminated sites must be recognized when all of the following criteria have been met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible for or has accepted responsibility for the site;
- it is expected that future economic benefits will be given up to remediate the contamination; and
- a reasonable estimate can be made of the cost of remediation.

The standard calls for governments to calculate their contaminated-site liabilities on a best-estimate basis. All costs directly attributable to remediation, including post-remediation expenses, are to be included in the liability, and the costs to be estimated are those deemed necessary to bring a site up to an appropriate level for use. The total liability is based on the best available information, and is net of any expected recoveries.

The Office of the Provincial Controller Division of Treasury Board Secretariat (Provincial Controller Division) had the lead responsibility for implementing the new standard. Ministries and their consolidated agencies were required to identify, estimate and report to the Provincial Controller Division all liabilities related to contaminated sites in their respective jurisdictions.

The province recognized its liabilities for contaminated sites in accordance with PS 3260 in its March 31, 2015, Consolidated Financial Statements. We concurred with the decision by the Provincial Controller Division to implement this accounting change retroactively as an adjustment to the opening accumulated deficit, with no restatement of financial statements from previous periods. This treatment is supported by PSAB standards.

The resulting implementation of PS 3260 and the recognition of its liability for contaminated sites increased the environmental liabilities recognized in the province's consolidated financial statements by $1.685 billion, from $107.0 million in previous years. The new total liability as at March 31, 2015, was $1.792 billion.

The standard was difficult to implement because estimating environmental liabilities required considerable use of specialists, such as site assessors, engineers and others, to assess the extent of a site's contamination. It took time to establish a complete site inventory, and to populate that inventory with accurate, credible and reliable assessment information to allow for reasonable estimates of future remediation costs.

As expected, the number of sites identified was high, and the potential liabilities large. However, the Provincial Controller Division, working closely with ministries, was able to ensure the standard was implemented effectively and the estimated liability was reasonable.

Chapter 3, **Section 3.10** of this Annual Report describes the work done by the Office of the Provincial Controller Division and key ministry stakeholders to implement PS 3260. Although we detail several of our concerns regarding the precision of the government's liability estimate and the need to improve it over time in that section, we were satisfied with the completeness of the ministries' efforts to identify all high-risk sites and to provide a reasonable estimate of the liability reported under the new standard.

Update on the Workplace Safety and Insurance Board

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by the *Workplace Safety and Insurance Act, 1997* (Act). Its primary purpose is to provide income support and medical assistance to workers injured on the job. The WSIB receives no funding from government; it is financed through premiums on employer payrolls.

Over the past decade, we have raised a number of concerns about significant growth in the WSIB's unfunded liability, which is the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers. Our *2009 Annual Report* discussed the risk that the growth and magnitude of the unfunded liability posed to the WSIB's financial viability, including the ultimate risk of the WSIB being unable to meet its existing and future commitments to provide worker benefits.

We also urged the government to reconsider the exclusion of the WSIB's financial results from the province's consolidated financial statements, particularly if there were any risk that the province might have to provide funding to ensure the WSIB remained viable. The government excludes WSIB's financial results because the WSIB is classified as a "trust"; however, given the WSIB's significant unfunded liability and various other factors, we questioned whether the WSIB was operating like a true trust. Including the WSIB in the government's consolidated financial statements would have a significant impact on the government's fiscal performance.

As of June 30, 2010, the WSIB's unfunded liability had grown to almost $13 billion.

In September 2010, the WSIB announced an independent funding review to obtain advice on how to best ensure the long-term financial viability of Ontario's workplace safety and insurance system. The May 2012 report by Professor Harry Arthurs contained a number of recommendations, in particular calling for a new funding strategy for the WSIB with the following key elements:

- realistic assumptions, including a discount rate based on the best actuarial advice;
- moving the WSIB as quickly as feasible beyond a "tipping point" of a 60% funding Sufficiency Ratio (a tipping point is a crisis in which the WSIB could not generate sufficient funds to pay workers' benefits within a reasonable time frame and by reasonable measures); and
- putting the WSIB on course to achieve a 90%–110% funding Sufficiency Ratio within 20 years.

In response to our concerns and to the recommendations of the Arthurs report, the government passed Regulation 141/12 under the Act in June 2012. Effective January 1, 2013, it required the WSIB to ensure it meets the following funding Sufficiency Ratios by specified dates:

- 60% on or before December 31, 2017;
- 80% on or before December 31, 2022; and
- 100% on or before December 31, 2027.

The government also passed Ontario Regulation 338/13 in 2013. It came into force January 1, 2014, and changed the way the WSIB calculates the funding Sufficiency Ratio by changing the method used to value its assets and liabilities. Our Office concurred with this amendment.

The WSIB issues quarterly Sufficiency Reports and an audited Sufficiency Report to stakeholders annually. As of December 31, 2014, under Regulation 141/12 as amended by Regulation 338/13, the WSIB reported a Sufficiency Ratio of 70.9% (in 2013, the Sufficiency Ratio was 63.0%). This means the WSIB has already achieved its December 31, 2017 funding requirement.

The WSIB also submits an annual update of the Sufficiency Plan to the Ministry of Labour by June 30 of each year, in which it describes the measures taken to improve its funding Sufficiency Ratio. The most recent Plan was dated June 18, 2015, and was formally accepted by the Ministry of Labour on August 25, 2015.

The WSIB's operational and financial performance was strong in 2014, as illustrated in **Figure 8**, which provides a summary of the WSIB's operating results and unfunded liability compared to 2013.

The WSIB's continued strong operating performance in 2014 resulted from growth in premium revenues, improved return-to-work outcomes and better-than-expected investment returns (10.3% versus the target of 6.0%).

However, the WSIB's ability to maintain its current funding Sufficiency Ratio, achieve the 2022 and 2027 prescribed funding Sufficiency Ratios, and continue its strong financial performance remains subject to considerable uncertainty regarding future benefit costs, premium revenues and investment returns.

As a result of the government's and the WSIB's commitments to address the unfunded liability and the progress the WSIB had made so far, we supported the continued classification of the WSIB as a trust for the 2014/15 fiscal year and therefore the exclusion of the unfunded liability from the province's liabilities. However, we will continue to monitor the WSIB's progress on meeting the required funding Sufficiency Ratios and re-evaluate our position as necessary.

Sale of Hydro One Inc. and Hydro One Brampton Networks Inc.

In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One.

The government passed the *Building Ontario Up Act, 2015* (Act) in June 2015 to permit the sale of up to 60% of Hydro One Inc., and announced plans for an initial public offering of about 15% of common shares for the fiscal year ending March 31, 2016.

The Act requires the province, which is currently the sole shareholder of Hydro One, to retain at least 40% of the company's shares. It also stipulates that no other single shareholder can hold more than 10% of the total equity.

Figure 8: Workplace Safety and Insurance Board Operating Results and Unfunded Liability, 2014 and 2013 ($ million)
Source of data: WSIB Financial Statements and WSIB Fourth Quarter 2014 Report to Stakeholders

	2014	2013
Revenue		
Premiums	4,467	4,387
Net investment income	1,927	2,042
	6,394	**6,429**
Expenses		
Benefit costs	2,623	2,856
Loss of Retirement Income Fund contributions	59	62
Administration and other expenses	358	397
Legislated obligations and commitments	276	267
Remeasurement of employee defined benefit plans	296	(840)
	3,612	**2,742**
Total Comprehensive Income	**2,782**	**3,687**
Less: Non-controlling Interests	(242)	(264)
Total Comprehensive Income Attributable to WSIB Stakeholders	**2,540**	**3,423**
Unfunded Liability	**8,098**	**10,638**

Effective December 4, 2015, the Act removes the ability of my Office to conduct or report on value-for-money audits on the operations of Hydro One. As a result, our recent audit of Hydro One's management of electricity transmission and distribution assets, which we began before the Act was tabled, will be our last value-for-money audit on the company.

As of December 4, 2015, we will still have access to Hydro One's accounts and to information to enable us to conduct our annual audit of the province's consolidated financial statements and issue an audit opinion on the province's consolidated financial statements.

The government has also been proceeding with the sale of Hydro One Brampton Networks Inc., expected to bring the province about $607.0 million, net of any price adjustments. The sale is conditional on retiring approximately $193.0 million in debt owed by Hydro One Brampton Networks to Hydro One. In April 2015, the government announced that it had accepted an unsolicited offer by three local distribution companies, Enersource Corporation, Powerstream Holdings Inc. and Horizon Holdings Inc., to merge with Hydro One Brampton Networks.

Hydro One Brampton Networks is a large growing utility with mature operations, operating in a highly regulated environment, and is consistently profitable each year. As a result, it represents a low risk to potential investors, which would likely have attracted strong interest in the utility if it had been offered for sale publicly using a competitive process. However, since the province did not follow an open, competitive and transparent process for the sale of Hydro One Brampton Networks, it is not possible to determine whether it received the highest value when it accepted the unsolicited offer for the sale. Nevertheless, based on information provided to us by Hydro One and the Ministry of Energy, we estimate that the unsolicited $607.0 million offer is a reasonable offer for Hydro One Brampton Networks, and would provide the province with a fair return on its investment. Hydro One has invested $223.0 million in Hydro One Brampton Networks since it was purchased in 2000, and the government will invest another $193 million to retire the debt.

The merger of Hydro One Brampton Networks and the three purchasing utilities will create the second-largest local distribution company in the province by customer size. The Premier's Advisory Council, which recommended accepting the unsolicited offer, noted that consolidation of smaller utilities was favoured to drive efficiencies and resulting benefits to ratepayers.

On August 31, 2015, Hydro One declared a dividend, transferring all its shares in Hydro One Brampton Networks and the $193.0 million debt and $3.0 million accrued interest to the province. The Brampton sale was still in progress as of October 2015 and subject to approval of the Ontario Energy Board and the municipalities that own the other local distribution companies.

Use of Legislated Accounting Standards

PSAB has been largely successful to date in having its standards accepted by federal, territorial and local governments as the basis for the preparation of their financial statements.

However, as standards develop to address increasingly complex transactions—especially if standards have a significant impact on the accounting and measurement of transactions affecting a government's annual deficit, surplus, or net debt—governments are less willing to adopt PSAB standards because of the potential for volatility in annual results.

As discussed in our *2014 Annual Report*, some Canadian governments have begun in certain circumstances to legislate specific accounting treatments rather than applying independently established accounting standards. This includes Ontario, which several times in recent years passed

legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities and its consolidated financial statements.

We reported in 2008 that it was a troubling precedent to adopt accounting practices through legislation rather than through an independent, consultative process such as that of PSAB. Although these legislated accounting treatments have not yet resulted in the province's consolidated financial statements materially departing from PSAB standards, the risk of such a material misstatement in the future has increased. The following is a chronological synopsis of these developments:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allows for the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year, regardless of PSAB accounting standards.
- In the 2009/10 fiscal year, the *Education Act* and the *Financial Administration Act* were amended. The *Education Act* amendments specified that the government could prescribe accounting standards for Ontario School Boards to use in preparing financial statements. The *Financial Administration Act* amendments allow the government to prescribe accounting standards for any public or non-public entity whose financial statements are included in the province's consolidated financial statements.
- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, a fully owned Ontario government business enterprise, to prepare its financial statements in accordance with U.S. generally accepted accounting principles, effective January 1, 2012. The government has since told another fully owned government business enterprise, Ontario Power Generation Inc. (OPG), to do the same. American accounting rules allow rate-regulated entities to defer current expenses for recognition in future years; the government's direction to adopt these U.S. rules came in anticipation of the planned Canadian adoption of International Financial Reporting Standards (IFRSs), which at that time did not allow for such deferrals.
- Ontario government regulations now require transfers for capital acquisitions and transfers of tangible capital assets to be accounted for by transfer recipients as deferred contributions. The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. We have historically supported this accounting because we believe that it best reflects the economic reality of the underlying transactions and complies with generally accepted accounting principles. However, PSAB standards in this area are being interpreted differently by many stakeholders.
- The 2012 Budget further amended the *Financial Administration Act* to provide the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements.

We have raised this issue of legislated accounting treatment on a number of occasions in our previous Annual Reports, but I will continue to raise it because we believe it is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting standards, specifically those of PSAB, in order to maintain its financial credibility.

As the auditor of these statements, I am required to opine on "whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with Canadian public sector accounting standards." If the government reported a deficit or surplus under legislated accounting standards that was materially different than what it would be under

PSAB standards, I would have no choice but to include a reservation in my audit opinion.

Our Office has been able to issue "clean" opinions, without reservations, on the government's financial statements for the last 22 consecutive years. I sincerely hope that this will continue to be the case. As such, I will continue to raise the matter of the risk of legislated accounting treatments in future Annual Reports.

Significant Accounting Issues

As noted previously, it is our view that PSAB standards are the most appropriate for the province to use in preparing its consolidated financial statements. This ensures that information provided by the government about the surplus or the deficit is fair, consistent and comparable to data from previous years, allowing legislators and the public to assess the government's management of the public purse. It is worth noting that Ontario's approved Budget is also prepared on the same basis as its consolidated financial statements.

However, PSAB faces challenges in reaching a consensus among its various stakeholders, including financial statement preparers and auditors, on what accounting standards are most appropriate for the public sector.

We discuss three significant accounting issues (Financial Instruments, Rate-Regulated Accounting and Transfer Payments) that have posed a significant challenge to PSAB over the past few years. Their final accounting-standard determination will affect the way the province accounts for these items, and it will have a significant impact on the province's reported financial results.

Financial Instruments

Financial instruments include provincial debt, and derivatives such as currency swaps and foreign-exchange forward contracts. PSAB's project to develop a new standard for reporting financial instruments began in 2005, with a key issue being whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government's annual surplus or deficit.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments, effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the treatment of government financial instruments, and is similar to comparable private-sector standards.

One of its main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement of remeasurement gains and losses.

Some Canadian jurisdiction preparers, including Ontario, do not support the introduction of these fair-value remeasurements and the recognition of unrealized gains and losses. Ontario's view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings, and that it has both the intention and ability to hold these derivatives until the debts associated with them mature. Accordingly, remeasurement gains and losses on the derivatives and their underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government. The government argues that recording paper gains and losses each year would force the province to inappropriately report the very volatility that the derivatives were acquired to avoid. This, in its view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to governments' concerns, PSAB committed to reviewing the new financial

instruments standard by December 2013. PSAB completed its review of *Section PS 2601, Foreign Currency Translation*, and *Section PS 3450, Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard.

PSAB initially deferred the effective date for these new standards to fiscal years beginning on or after April 1, 2016. In 2015, however, PSAB further extended the effective date for the new standard to April 1, 2019, for senior governments, to allow for further study of reporting options for these complex financial instruments.

We have recommended in the past, and continue to recommend, ongoing dialogue between our Office and the Office of the Provincial Controller to review areas of common concern as PSAB reassesses the standard in preparation for implementing it on April 1, 2019.

Rate-regulated Accounting

Rate-regulated accounting practices were developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated. We have in recent years raised concerns about the appropriateness of recognizing such assets and liabilities in the province's consolidated financial statements.

Rate-regulated accounting is used by two of the province's government-controlled businesses enterprises, Ontario Power Generation Inc. (OPG) and Hydro One, whose rates to customers are approved by the government-established regulator, the Ontario Energy Board.

The regulator often allows the entity to recover certain current costs from the rate payer in future years, and these deferred costs are typically set up under rate-regulated accounting as assets on the entity's statement of financial position. Under normal accounting principles, these costs would be expensed in the year incurred.

We have accepted rate-regulated accounting treatment as allowable under Canadian generally accepted accounting principles, even though we question whether rate-regulated assets should be considered as bona fide assets in the government's consolidated financial statements.

We note that since the government controls both the regulator and the regulated entity, it has significant influence on which costs the entity will recognize in a given year. This could ultimately affect both electricity rates and the annual deficit or surplus reported by the government.

The use of rate-regulated accounting is under review by the International Accounting Standards Board (IASB) and Canada's Accounting Standards Board (AcSB). It is still temporarily allowed in certain circumstances under Canadian generally accepted accounting principles.

The issue goes back to December 2009, when the AcSB required publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. However, a number of rate-regulated entities expressed concerns at the time about the impact of the change on the reporting of their results, as IFRS did not provide guidance on rate-regulated accounting.

With the uncertainty regarding rate-regulated accounting, the Ontario government passed a regulation in 2011 that allowed both OPG and Hydro One to prepare their financial statements in accordance with U.S. generally accepted accounting standards, and subsequently directed them to do so.

These standards specifically require the entities to use rate-regulated accounting. However, OPG and Hydro One are recorded and consolidated in the province's financial statements using Canadian generally accepted accounting principles.

In our previous annual reports, we have observed that the era of rate-regulated accounting appeared to be ending for jurisdictions like Canada, which were converting to IFRS. Our comments were based on the fact that in January 2012, Canada's AcSB reaffirmed that all government business enterprises should prepare their financial statements in accordance with IFRS for fiscal years

beginning on or after January 1, 2012. At that time, no standard specifically addressed rate-regulated activities and so, by default, IFRS standards did not permit rate-regulated accounting.

However, the landscape continued to change. The United States has not adopted IFRS, and continues to allow rate-regulated accounting. In an effort to reconcile U.S. generally accepted accounting principles with IFRS, Canada's AcSB granted a one-year extension in March 2012 to the mandatory IFRS changeover date for entities with qualifying rate-regulated activities. In September 2012, it granted another extension, to January 1, 2014, and extended it again the following year to January 1, 2015.

The IASB issued an interim IFRS standard in January 2014 with an effective date for fiscal years beginning on or after January 1, 2016. The interim standard eased the adoption of IFRS for rate-regulated entities by allowing them to continue to apply existing policies for their deferred rate-regulated balances upon adoption of IFRS starting on January 1, 2015. Essentially, the interim standard provides a first-time adopter of IFRS with relief from having to derecognize their rate-regulated assets and liabilities. It achieves that by allowing s rate-regulated entities to early adopt *IFRS 14 Regulatory Deferral Accounts* until the IASB completes its comprehensive project on accounting for such assets and liabilities.

Rate-regulated accounting has a significant impact on the government's financial statements. For example, OPG recognized $2.8 billion in net rate-regulated assets as of March 31, 2015. Future reporting under IFRS that does not accommodate rate-regulated accounting may increase the volatility of OPG and Hydro One's annual operating results. This in turn could lead to volatility in the province's annual deficit or surplus and may impact the government's revenue and spending decisions.

We noted in our *2014 Annual Report* that if the government continued to direct OPG and Hydro One to use U.S. generally accepted accounting principles (GAAP) in preparing their financial statements, and continues to use the former Canadian generally accepted accounting principles that do not include IFRS to prepare the province's consolidated financial statements, we will need to assess the differences that result from the government not following accounting standards of PSAB and AcSB. These differences will need to be quantified, and if material, we would most likely treat them as errors in the consolidated financial statements.

The effect of OPG and Hydro One not adopting IFRS on January 1, 2015, was determined to be immaterial to the province's March 31, 2015 consolidated financial statements. The reporting periods of OPG and Hydro One differ from those of the province. Changes in their financial reporting as a result of the new standard will be reflected only as of the province's 2015/16 consolidated financial statements.

My Office will work with the Office of the Provincial Controller Division in 2015/16 to plan for changes related to the consolidation of OPG and Hydro One as a result of changes in accounting standards. We will likely be seeking an audit opinion from the external auditors of OPG and Hydro One attesting to the differences between their financial statement results and the financial position under IFRS and U.S. GAAP.

Transfer Payments

PSAB's Government Transfers project began a number of years ago to address several accounting issues related to monetary transfers from one level of government to another, including the following:

- appropriately accounting for multi-year funding provided by one government to another;
- clarifying the authorization needed for transfers to be recognized by both the government making the transfer, and the one receiving it;
- clarifying the degree to which stipulations imposed by a transferring government affect the timing of transfer recognition in the accounts of both the transferring and recipient governments; and

- appropriately accounting for transfers that are to be used to acquire or construct tangible capital assets.

After substantial discussion and the issuing of several documents for comments, PSAB approved a new standard on government transfers in December 2010, effective for fiscal years beginning on or after April 1, 2012.

One of the most difficult areas PSAB had to address in developing the standard was how recipients should account for multi-year transfers. If the federal government makes a lump-sum transfer near the end of a fiscal year to a province to fund services over several years, the question arises as to whether the province should immediately recognize the full amount of the grant as revenue, or recognize the revenue spread out over the years it provides the federally funded services.

A similar issue arises with respect to capital transfers from the province to entities such as school boards and hospitals. A number of stakeholders held the view that capital transfers should be recognized as revenue when the recipient government incurs the expenditures making it eligible to receive the grant. However, other stakeholders held that such transfers should be brought into revenue over time as the tangible capital asset acquired or constructed with the transferred funds is used to provide public services.

The new standard generally recommends that recipients should recognize a government transfer as revenue when it has been authorized and the recipient has met all eligibility criteria. However, this requirement does not apply when the transferring government creates a liability for the recipient government by imposing stipulations on the use of the transfer, or specifies actions the recipient needs to take to keep the transfer.

The standard also specifies that actions and communications by the recipient that restrict the use of transferred funds for a specific purpose can create a liability. To meet PSAB's liability definition, there must be no discretion to avoid it, there must be a future outflow of economic resources to settle it, and it must be the result of past transactions and events. Whether the facts and circumstances surrounding a particular transfer support the recognition of a liability is a matter of professional judgment. If a transfer is deemed to create a liability for the recipient government, the transfer is deferred and recognized as revenue as the liability is settled over time.

As we highlighted in our *2013 Annual Report*, rather than enhancing consistency and comparability in accounting for government transfers, the new standard appears to have created confusion. Its requirements are broad and open to interpretation, resulting in significant differences in its application. This is a concern, because transfers are usually a significant government activity and can have a great impact on reported results. In the 2014/15 fiscal year, Ontario recorded transfer-payment expenses of approximately $50.0 billion and transfer revenue from the federal government of around $22.0 billion.

Many stakeholders had asked PSAB to consider amending the transfers standard because of inconsistencies in interpretation and application. PSAB took the view that more empirical evidence is needed before it will consider amending the standard.

One significant area where consensus has been difficult to reach is accounting for transfers received to fund the acquisition or construction of tangible capital assets. Depending on the circumstances, such transfers might be recognized as revenue when received, when the asset has been acquired or constructed, or over the service life of the asset.

While we acknowledge the controversy over this new standard, we believe that it supports the initial accounting of government transfers and external contributions as deferred capital contributions, with both being recorded as revenue over the useful life of the related tangible capital assets based on transfer stipulations and recipient actions and communications. As such, we agreed with $6.3 billion in deferred capital contributions being recorded in 2014/15 in the province's March 31, 2015,

Consolidated Financial Statements ($5.8 billion in 2013/14).

PSAB is carrying out a post-implementation review of *PS 3410, Government Transfers*, because it is aware of different interpretations and applications of the standard. PSAB hopes this post-implementation review will help it assess implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues. PSAB noted that it will use responses to the review, along with other procedures, to determine next steps in dealing with the interpretation and application of the standard.

In September 2015, PSAB reported that it had considered the preliminary results of the post-implementation review of *PS 3410, Government Transfers*. PSAB also discussed the options for next steps and requested staff to prepare an options paper for its consideration at a meeting scheduled for December 2015.

We look forward to PSAB sharing the results of the review once it has deliberated on its findings and next steps.

Public Sector Accounting Board Initiatives

This section outlines some additional items that PSAB has been studying over the past year that might affect preparation of the province's consolidated financial statements in the future.

Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instill discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible and consistent manner that serves the public interest.

In 2011, PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current revenue and expense definitions, which they contend cause volatility in reported results and distort budget-to-actual comparisons. The task force's objective was to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

The task force's first step was to seek input from stakeholders on the building blocks of the conceptual framework; these will form the basis for evaluating the existing concepts underlying the measurement of financial performance. To this end, the task force has issued two consultation papers: *Characteristics of Public Sector Entities* and *Measuring Financial Performance in Public Sector Financial Statements*. Respondents to these consultation papers were in general agreement with the key proposals.

In March 2015, the task force issued a third consultation paper that proposed a new reporting model and draft principles on public-sector characteristics, financial statement objectives, qualitative characteristics, elements, recognition, measurement and presentation. The task force had asked for comments to be submitted on the third consultation paper by August 31, 2015.

The task force's next step is to develop a statement of principles in the fourth quarter of 2015 that will take into account input received from the three Consultation Papers and propose a revised conceptual framework and reporting model for public-sector entities.

Improvements to Not-for-profit Standards

The Accounting Standards Board (AcSB) and PSAB initiated a joint project in 2011 to improve accounting standards for not-for-profit organizations, including those controlled by the government.

These standards are followed by many organizations funded by the Ontario government.

In April 2013, the Joint Not-for-Profit Task Force established to lead this project issued a statement of principles containing 15 proposals, the most significant of which stipulated that:

- Contributions received would be immediately recognized as revenue, unless the terms of the contribution give rise to an obligation that met the definition of a liability.
- Government not-for-profit organizations would present "net debt" indicators, a statement of net debt as well as budgeted information.
- Government not-for-profit organizations would follow the guidance in CPA Canada's *Public Sector Accounting Handbook* on the capitalization, amortization, write-down and disposal of tangible capital assets.
- Intangibles, works of art and historical treasures (including collections), and economic interests would continue to be recognized in financial statements.

The statement of principles has generated high levels of interest from stakeholders in the public and private not-for-profit sectors because its proposals are expected to have far-reaching implications on the financial statements of not-for-profit organizations. For example, the statement of principles proposes to remove the not-for-profit organization's ability to defer capital contributions and recognize these amounts in revenue on a basis consistent with the amortization recorded on the related tangible capital asset. The statement of principles proposes that capital contributions be recorded in revenue, except in those circumstances where the contribution gives rise to an obligation that meets the definition of a liability.

Many not-for-profit organization stakeholders are concerned that an organization's annual results would be distorted if it is not allowed to follow the traditional accounting practice of deferring capital contributions over the useful life of the related tangible capital asset.

As well, the proposed change will challenge the province's ability to hold its controlled government not-for-profit organizations accountable for balanced budgets in those later years when amortization is recorded on the tangible capital asset for which the capital contribution was recorded in revenue in an earlier period. The AcSB and PSAB received about 300 letters on this topic and are analyzing them in considering next steps.

Asset Retirement Obligations

The objective of this project is to develop a standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. For example, there may be obligations associated with decommissioning an electricity generating facility.

PSAB issued a statement of principles in August 2014 that proposes a new section on retirement obligations associated with tangible capital assets controlled by a public-sector entity. The main features of this statement of principles are as follows:

- A retirement obligation should be recognized when there is a legal, constructive or equitable obligation to incur retirement costs in relation to a tangible capital asset.
- Upon initial recognition, the entity would increase the carrying amount of the related tangible capital asset by the same amount as the liability. Therefore, the initial recognition of an asset retirement obligation will increase net debt reported by a public-sector entity.
- The estimate of a liability for retirement obligation should include costs directly attributable to retirement activities, including post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.
- The carrying amount of the liability for a retirement obligation should be reviewed at each financial reporting date.

- Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense.

PSAB asked stakeholders to submit comments on the statement of principles by November 21, 2014, and is currently examining those comments. It expects to develop an exposure draft in the second quarter of 2016.

Revenue

Two major sources of government revenue—government transfers and tax revenue—are addressed in the sections *PS 3410 Government Transfers* and *PS 3510 Tax Revenues* of the CPA Canada *Public Sector Accounting Handbook* (*Handbook*). However, the *Handbook* does not specifically address other revenues.

In September 2011, PSAB approved an amended project proposal on revenues to address the limited guidance in the *Handbook* on revenues that are common in the public sector. PSAB did not initiate the project to review the existing revenue standards; rather, it aimed to put in place overarching guidance to address questions about when revenues are recognized, and how they are measured and presented in the financial statements.

In August 2013, PSAB issued a Statement of Principles containing proposals that will affect the reporting of a broad range of revenues. The purpose of the project and Statement of Principles is to expose a new Section on revenues that would apply to public-sector entities that follow the *Handbook*.

The Statement of Principles:

- focuses on two main areas of revenue:
  - exchange transactions; and
  - unilateral (non-exchange) transactions
- notes the presence of performance obligations for the public-sector entity as the distinguishing feature of an exchange transaction;
- defines performance obligations as enforceable promises to provide goods or services;
- recognizes that revenue from an exchange transaction constitutes the public-sector entity's meeting a performance obligation;
- recognizes unilateral revenues when there is the authority and a past event that gives rise to a claim of economic resources; and
- allows that revenue is not reduced when collectability is uncertain; instead, a corresponding allowance for doubtful accounts is established for the associated receivable.

The next step in the project is for an exposure draft to be issued in the third quarter of 2016.

Employment Benefits

In December 2014, PSAB approved an Employment Benefits project to improve the existing sections by taking into account changes in the related accounting concepts and new types of pension plans that were developed since the existing sections were issued decades ago.

The project aims to review the existing sections, *PS 3250 Retirement Benefits* and *PS 3255 Post-employment Benefits, Compensated Absences and Termination Benefits*. The first stage of the project will focus on key issues which include, but are not limited to, deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick-leave benefits. The second stage will determine how to account for the new types of pension plans.

The invitation to comment is currently being developed PSAB expects to approve the invitation by March 2016.

Related Party Transactions

PSAB initiated a project in September 2010 with the objective of issuing a new accounting standard that defines a related party in the context of the public sector and describes the measurement and disclosure requirements for related parties and their transactions. Transactions between related parties may not be conducted under the same terms

as transactions between unrelated parties; detailed disclosures allow users to assess the effect of related party transactions on a reporting entity's financial position and financial performance.

Following the publication of several documents for comment, including an exposure draft and a re-exposure draft, PSAB issued a second re-exposure draft for public comment in 2014. This re-exposure draft proposed to create two *Public Sector Accounting Handbook* sections on related party transactions: *Related Party Disclosures and Inter-entity Transactions*.

The objective of the first proposed section, *Related Party Disclosures*, is to define a related party and to provide guidance on disclosing sufficient information about the terms and conditions of related party transactions. The key proposals included in this section are:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control.
- Individuals who are members of key management personnel and close members of their family are included in the definition of related parties; however, the standard would not require disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered. The determination of whether an individual is included in key management personnel requires judgment.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure should include adequate information about the nature of the relationship with related parties involved in transactions, including the types of related party transactions that have been recognized, the amounts of the transactions classified by financial statement category; the basis of measurement used, the amount of the outstanding balances at period end, and the terms and conditions attached to these balances.
- Disclosure is required only when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclose and the level of detail to provide is a matter of judgment.

The purpose of the second section, *Inter-entity Transactions*, is to provide guidance on how to account for transactions that take place between organizations under the common control of a government entity. The most significant proposals are:

- Inter-entity transactions occurring in the normal course of operations and on similar terms and conditions to those adopted if the entities were dealing at arm's length should be recorded at the exchange amount. Transactions in the normal course of a business generally relate to ongoing operating revenues and expenses and do not include the transfer of assets or liabilities.
- Transfers of assets or liabilities between entities are measured based on the amount of the consideration received in exchange:
  - if the consideration received approximates the fair value of the assets or liabilities transferred, the transaction should be measured at the exchange amount;
  - if the consideration received is nominal or nil, the transaction should be measured at the carrying amount by the provider and at the carrying amount or fair value by the recipient; and
  - in all other instances, the transaction should be measured at the carrying amount.
- Allocated costs and recoveries should be measured at the exchange amount.

PSAB accepted feedback on the revised proposals until mid-September 2014. After discussing the responses and the changes proposed by the task force to address the comments, PSAB approved two new *Handbook* sections in December 2014—*Related Party Disclosures* and *Inter-entity Transactions*—and issued them in February 2015. The new standards are to apply to fiscal years beginning on or after April 1, 2017. Early adoption is possible. These sections would be applied prospectively.

Statutory Matters

Under Section 12 of the *Auditor General Act*, the Auditor General is required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, Section 91 of the *Legislative Assembly Act* requires that the Auditor General report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

Legislative Approval of Expenditures

Shortly after presenting its Budget, the government tables detailed Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's planned spending. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the Supply Act is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2015*, which pertained to the fiscal year ended March 31, 2015, received Royal Assent on March 31, 2015.

The Supply Act does not receive Royal Assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so the government usually requires interim spending authority prior to its passage. For the 2014/15 fiscal year, the Legislature passed the *Interim Appropriation for 2014-2015 Act, 2014* (Interim Act). The Interim Act received Royal Assent on July 24, 2014, and authorized the government to incur up to $87.3 billion in public-service expenditures, $2.3 billion in investments, and $135.3 million in legislative office expenditures. The Interim Act was made effective as of April 1, 2014.

The *Interim Act* provided the government with sufficient authority to allow it to incur expenditures from April 1, 2014, to when the *Supply Act, 2015*, received Royal Assent on March 31, 2015. The spending authority provided under the Interim Act was intended to be temporary, and it was repealed when the *Supply Act, 2015*, received Royal Assent. The *Supply Act, 2015*, also increased total authorized expenditures of the legislative offices from $135.3 million to $141 million.

Special Warrants

If the Legislature is not in session, Section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council and approved by the Lieutenant Governor on the recommendation of the government.

For the fiscal year ending March 31, 2015, one Special Warrant totaling $34,668,194,400 was approved by an Order-in-Council dated May 5, 2014. This Special Warrant was required because there was no appropriation by the Legislature for required government expenditures, as the Legislature was not in session. As a result, the Special Warrant allowed ministries and legislative offices to incur expenditures from May 5, 2014, until the Interim Act received Royal Assent on July 24, 2014.

Treasury Board Orders

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the books of the government for the fiscal year are closed. The government considers the books to be closed when any final adjustments arising from our audit have been made and the Public Accounts have been published and tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making program transfers between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction in the amount available under the government's centrally controlled contingency fund.

Figure 9 summarizes the total value of Treasury Board Orders issued for the past five fiscal years, and **Figure 10** summarizes Treasury Board Orders for the fiscal year ended March 31, 2015, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be printed in *The Ontario Gazette*, together with explanatory information. Orders issued for the 2014/15 fiscal year are expected to be published in *The Ontario Gazette* in December 2015. A detailed listing of 2014/15 Treasury Board Orders, showing

Figure 9: Total Value of Treasury Board Orders, 2010/11–2014/15 ($ million)

Source of data: Treasury Board

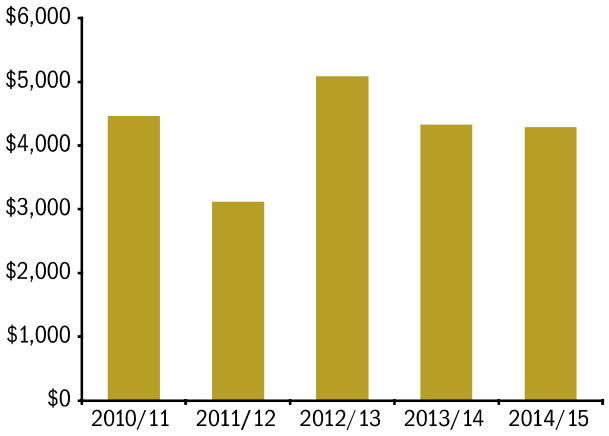


Figure 10: Total Value of Treasury Board Orders by Month Relating to the 2014/15 Fiscal Year

Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2014–February 2015	36	2,753
March 2015	40	1,170
April 2015	4	4
July 2015	1	364
Total	**81**	**4,291**

the amounts authorized and expended, is included as Exhibit 4 of this Annual Report.

Transfers Authorized by the Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, Section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report. Accordingly, **Figure 11** shows the transfers made within Vote 201 with respect to the 2014/15 Estimates.

Uncollectible Accounts

Under Section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

Figure 11: Authorized Transfers Relating to the Office of the Assembly, 2014/15 Fiscal Year

Source of data: Board of Internal Economy

From:		$
Item 10	Members' Office Support Services	(350,000)
To:		
Item 8	Caucus Support Services	350,000

In the 2014/15 fiscal year, receivables of $354.5 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2013/14 was $390.1 million.) The write-offs in the 2014/15 fiscal year related to the following:

- $107.4 million for uncollectible retail sales tax ($146.7 million in 2013/14);
- $101.1 million for uncollectible corporate tax ($104.3 million in 2013/14);
- $59.7 million for uncollectible receivables under the Student Support Program ($68.0 million in 2013/14);
- $20.3 million for uncollectible tobacco tax ($4.4 million in 2013/14);
- $11.8 million for uncollectible receivables under the Ontario Disability Support Program ($8.6 million in 2013/14);
- $7.2 million for uncollectible receivable related to a bankrupt forestry company ($0.1 million in 2013/14)
- $ 47.0 million for other tax and non-tax receivables ($58.0 million in 2013/14).

Volume 2 of the 2014/15 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the preparation of the province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the write-offs had already been expensed in the government's consolidated financial statements. However, the actual write-off in the accounts required Order-in-Council approval.

Standing Committee on Public Accounts

Review of Auditor General's 2015 Annual Report, Chapter 2

October 5, 2016

Deputy Minister Orencsak Opening Remarks

Good afternoon Chair and fellow members of the Public Accounts Committee.

On behalf of myself and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on Chapter 2 of the Auditor General's 2015 Annual Report.

This includes discussion on the province's debt as well as a discussion of the Province's 2014-15 Annual Report and the accompanying Financial Statement Discussion and Analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As members of the Committee will know, we also had the pleasure of joining this Committee last year to discuss Chapter 2 of the Auditor General's 2014 Annual Report.

We look forward to having these discussions with this Committee and to maintaining the positive and collaborative relationship with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in Chapter 2 of her Annual Report last year. During our presentation we will

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update the Committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard-setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public-sector entities.

We all agree on the importance of producing high-quality financial reports, which serve the transparency and accountability needs of the public and the legislature.

When we appeared before the Committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 Annual Report.

Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Thomas Teahan, President and CEO of the Workplace Safety and Insurance Board, who you have invited to appear before the Committee today.

Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahan would be pleased to update you on the board's progress in meeting its sufficiency ratio which has been an interest of the Auditor General over the past several years.

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As I noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results, but also in relation to the government's fiscal planning process.

Since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting, and what the primary users of this information expect from their governments.

I am sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which the Public Sector Accounting Board's accounting standards are set.

In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.*

These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the *Fiscal Transparency and Accountability Act* in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

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At last year's hearing we reported that Ontario had received an 'A' from a 2015 C.D. Howe report, ranking it among the best in the overall quality of its reporting of financial results.

This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of release, our ranking has fallen to an "A-". In other words, it remains very good.

In line with C.D. Howe's position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB's standard for Liability for Contaminated Sites, noted in the Auditor General's Report as a challenge that was successfully navigated.

Staff at the Treasury Board Secretariat have taken steps to enhance the transparency and accountability in the report, and to make the information contained in it more accessible and understandable for the average person.

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Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average person to better understand the trends in balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the Financial Statement Discussion and Analysis section of the government's Annual Report.

Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a non-partisan manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB's Statements of Recommended Practice, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

Ontario's Annual Report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management, and transparency and accountability in public reporting.

As Deputy Minister of Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen the accountability and transparency of the Public Accounts.

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In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high quality public sector reporting for the people of Ontario.

At this point I would like to turn things over to Deputy Thompson to discuss debt management and financial accounting in greater detail.

(turn over to MOF)

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Remarks by Gadi Mayman
CEO
Ontario Financing Authority

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 690

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed to reducing the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited

to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[Borrowing Program]

Ontario conducts a robust and responsible borrowing program that protects the public interest.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is the lowest it has been since 1990, and is forecast to remain low through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

Currently, the actual values for Ontario's net interest rate resetting exposure and foreign exchange exposure were 10.6 per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Standing Committee on Public Accounts
Speaking Notes for Tom Teahen
October 5, 2016

Thank you. Good day everyone. I'm Tom Teahen, President and CEO of the WSIB. With me is Pamela Steer, our Chief Financial Officer.

I would like to thank the members of the Standing Committee on Public Accounts for giving me the opportunity to provide an update on the WSIB's progress since the 2015 Auditor General's annual report.

In her report, the Auditor General supported the continued classification of the WSIB as a Trust Agency.

I am pleased to report to the Committee that our strong progress continues, supporting in my submission, the continued Trust status of the WSIB.

Let me say at the outset that the WSIB exists first and foremost to serve workers.

Our legislated mandate is to promote health and safety, to facilitate the return to work and recovery of workers and to provide compensation in a financially responsible and accountable manner.

Accountability ultimately rests in our ability to meet existing and future financial commitments to Ontario's workers and at the same time maintain stable and predictable premium rates.

The 2009 Auditor General report expressed concern that the growth and magnitude of our Unfunded Liability, or UFL, posed significant risk to our ability to meet this commitment.

Today, our situation is very different. I refer the Committee to our 2016 Economic Statement, released on September 14th. It serves as an update on our progress toward retiring our Unfunded Liability, but also highlights our strong progress in improving outcomes for the injured workers we serve.

I will briefly highlight some of our successes in both those areas. Our Unfunded Liability now stands at $5.6 billion, down from $14.2 billion in 2011. Current projections place us on a trajectory to eliminate it by 2021.

Our Sufficiency Ratio is forecasted to reach 85% by the end of this year.

We have determined, after working with key regulatory and financial thought leaders that we should aspire to a funding level between 115 and 125 per cent as our benchmark for being fully funded.

We currently project that we will reach a funding level of approximately 116 per cent by 2025.

In terms of how we compare to other provincial workplace compensation systems, our funding target is in line with most other jurisdictions.

The reason we have set this funding target is because of the injured workers and employers we serve.

It is our responsibility to ensure that a sustainable workplace compensation system exists for generations to come. Simply achieving 100 per cent funding is not enough to ensure workers' benefits are protected and employer premiums are stable and predictable.

A stable system ensures that workers' benefits and employer premiums are shielded from adverse economic conditions and market volatility.

Let me assure you that when the UFL is gone, we will continue to operate in a manner that is financially sustainable – so we can ensure secure benefits and stable premiums.

With respect to improved outcomes for injured workers, we have made significant progress to support safe recovery and return to work.

Currently, 92 per cent of injured workers are safely back on the job within a year of injury with no wage loss.

Our investments in Specialty Clinics and Programs of Care have also led to better outcomes for injured workers by providing faster access to specialized medical care.

In April of this year, we began providing benefits for workers under presumptive Post Traumatic Stress Disorder, or PTSD, legislation. As of September 9th, we had received 468 claims. Going forward, we expect to receive approximately 1,000 per year.

We are currently building a roster of psychiatrists and psychologists across the province to ensure that all of Ontario's workers have access to the support they need.

Our goal is to make Ontario a national leader in the prevention of workplace mental stress issues, including PTSD.

Those are just some of the highlights, both financial and operational, outlined in our 2016 Economic Statement.

In conclusion, I want to emphasize that as President, my message both internally and externally has been clear from the start: It is vital that our organization be seen by one and all – by workers and employers, by government and by the public – as being dedicated to, and defined by, Integrity and Excellence.

Those ideas – those principles – form the very core of our vision and our values.

The goals established in our 2016-2018 Strategic Plan and the priorities which support achieving the plan all align with our commitment to Integrity and Excellence.

These priorities will help us deliver on our duty to provide secure benefits for workers; stable and predictable premiums for employers; and in turn, deliver an essential benefit to the Ontario economy.

Thank you for this opportunity to appear. We would be happy to answer your questions.

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
In order to address the province's growing total debt burden, the government should work toward the development of a long-term total debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its prerecession level of 27%.	The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a plan to invest more than $130-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15. These capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt. One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A report[i] issued in 2015 found that on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term. The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target. The Province is on target to balance its budget in 2017-18. As a result, net debt to GDP is forecast to peak in 2015-16 at 39.6%, remain unchanged in 2016-17 and begin to decline to 38.9% in 2017-18. The Province's track record of beating its deficit targets 7 years in a row has contributed to net debt to GDP ratios that are consistently lower than forecast. For example, the 2014-15 Public Accounts forecasted peak net debt to GDP of 39.9% in 2015-16 declining to 39.3% in 2017-18.	The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

[i] The Economic Benefits of Public Infrastructure Spending in Canada – Broadbent Institute, September 2015

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.	The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. In preparing the Annual Report for the 2015-16 fiscal reporting period, the government reviewed reporting practices of other senior Canadian governments and also referenced recommended practices issued by the Public Sector Accounting Board.	The 2015-16 Public Accounts will be released later this month (i.e. 180 days after fiscal year end) in accordance with legislated timelines under the *Financial Administration Act*. A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including: • An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks. • Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

As of

TBS

Briefing Note

Communications Branch

Logistics for Standing Committee on Public Accounts

Issue:

- Government officials will appear before the Standing Committee on Public Accounts (SCOPA) regarding Chapter 2 of the 2015 Annual Report of the Office of the Auditor General of Ontario.
- Participating officials include:
    - Deputy Minister, Treasury Board Secretariat
    - Deputy Minister, Ministry of Finance
    - Chief Executive Officer, Ontario Financing Authority
    - Assistant Deputy Minister & Provincial Controller (Acting), Office of the Provincial Controller Division
    - President & CEO, WSIB

Agenda Information:

- SCOPA will begin meeting at 9 am in Committee Room 151 (See Appendix A) in the Legislature.
- The Auditor General will brief the Committee in a closed door session at 9 am
- TBS/MOF DM's and other witnesses are expected to appear before SCOPA at 12:30 pm for approximately 2.5 hours.
- The schedule for the afternoon portion will be as follows:
    - **12:30–12:50 pm** – Opening remarks (20 minutes total to be split between three government representatives):
        - DM TBS – 10-12 mins approx
        - DM MOF – 7 mins approx
        - CEO OFA – 5 mins approx

      *WSIB will not provide opening remarks

    - **12:50–1:50 pm** – First round of questions: each of the three political parties get 20 minutes of questions (60 mins total).
    - **1:50–2:45 pm** – Second round of questions: the remaining time until 2:45 pm is split between the three political parties (approximately 15-17 mins for each party totalling 45-50 mins).
    - **2:45–3:00 pm** – Closed session (committee members plus the Clerk only, no audience or presenters). Committee will discuss the outcome of the meeting and if they wish to prepare a report. There are no closing statements from the three gov't representatives.

Room Setup:

- SCOPA will take place in the Amethyst Room, Committee Room 151 (see appendix A).
- Room is equipped with cameras and the meeting will be available on TV's within the Legislature and streamed online.
- The setup of the room will be a square table with additional rows of seating at the front end of the room, closest to the door.
- The Committee Chair and Clerk will sit at the head of the table with the government and opposition parties on opposite sides. (See Appendix A for list of committee members)
- The TBS/MOF DM's and other witnesses will sit opposite the Committee Chair and Clerk.
- For TBS Karen Hughes (TBC), Artur Arruda (TBC), Nadine Petsche, Sofie DiMuzio and Jason Wesley will be present to support TBS DM if needed.

Tone of SCOPA/Media Access:

- A review of past SCOPA Committee Hansard transcripts shows that the vast majority of questions have focused on the audits themselves, the legislative landscape, the policy impact on real people, various processes and costs/cost controls.
- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TV's in the Legislature or online.

Other Information:

- Committee members may substitute members of their party without advance notice.
- If there are any materials that the TBS/MOF DM's or OFA CEO want to distribute to the Committee members, they are asked to bring 25 copies.
- Committee members can request copies of any documents brought into the room. However in reviewing Hansard, TBS Communications did not find any questions/requests to table briefing binders/notes.

Next Steps:

- Finalize briefing binders for October 5 appearance.

Prepared by: Emilie Smith
Senior Corporate Issues Management Analyst
TBS Communications
416-327-2434
September 30, 2016

APPENDIX A:

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, October 5, 2016

Committee Room 151

AGENDA

Public Accounts of the Province
(Chapter 2, 2015 Annual Report of the Office of the Auditor General of Ontario)

9:00 a.m. **Closed Session**
Briefing by the Auditor General

10:00 a.m. Briefing by the Research Officer

10:15 a.m. **RECESS**

12:30 p.m. **Treasury Board Secretariat**
Greg Orencsak, Deputy Minister
Cindy Veinot, Assistant Deputy Minister and Provincial Controller

Ministry of Finance
Scott Thompson, Deputy Minister

Ontario Financing Authority
Gadi Mayman, Chief Executive Officer

Workplace Safety and Insurance Board
Thomas Teahen, President and Chief Executive Officer
Pamela Steer, Chief Financial Officer

Committee discussion on report writing

- SUBJECT TO CHANGE -

About the Standing Committee on Public Accounts

Terms of Reference

As per Standing Order 108(h), the Standing Committee on Public Accounts is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

Committee Members

- Chair
  Ernie Hardeman
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2014-15 Public Accounts
General Questions & Answers

Qs & As

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HYDRO ONE SALE

Q1. How are you managing the value of government assets?

A1. With the *2014 Budget*, the government began unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

In the Ontario Economic Outlook and Fiscal Review in the fall of 2014, the Province shared the council's initial findings, which it supported. The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The government's actions are unlocking the value of key government assets to generate better returns and revenues for Ontarians. The benefits include helping to expand the economy, boost productivity, improve competitiveness and create jobs for Ontarians.

Q2. Does Ontario have a structural deficit, and are you only able to balance the books by selling off Ontario's assets lock, stock and barrel?

A2. Ontario does not have a structural deficit. Much of the government's expenditures are discretionary. The government's plan for asset optimization is to dedicate any net proceeds, dollar for dollar, from designated asset sales to the Trillium Trust to ensure this money is not funding operational spending at the detriment of our public infrastructure. Over the life of the plan, the government will spend the Trust on new roads, highways, transit and other infrastructure as part of its Moving Ontario Forward plan. This builds on the over $100 billion in infrastructure investments made by the Province since 2003, which have supported an average of 100,000 jobs each year and maintains the government's commitment in maintain the Province's public infrastructure.

BARGAINING AND COMPENSATION

Q3. How are you managing the costs of public sector compensation?

A3. Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Between July 2012 and September 2016, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent) and
- Ontario's private sector (1.9 per cent).

The government has also taken steps to ensure executives at BPS organizations, which include hospitals, school boards, colleges and universities, receive fair but reasonable compensation. The new *Broader Public Sector Executive Compensation Act, 2014*, allows the Province to set sector-specific compensation frameworks. These frameworks will consider all aspects of compensation, including benefits and hard caps on salaries, and will reflect consultation and extensive research.

With significant compliance and enforcement measures, these new frameworks will help achieve better value for money while ensuring BPS organizations can attract and retain talented individuals.

Q4. The government was working in a net-zero bargaining environment but then why was there increases in public sector compensation, such as Teachers, AMAPCEO, Hydro? Is that why the government is now backing away from net-zero?

A4. The government has been clear, in multiple fiscal plans, including in the 2014, 2015 and 2016 Budgets, that compensation costs must be addressed within Ontario's existing fiscal framework. Recent agreements reached with Teachers, AMAPCEO and Hydro One unions are examples of the net zero approach to managing compensation, where modest wage increases were offset through a variety of trade-offs.

Q5. This was the sixth year in a row that you have reported a deficit lower than forecast. It's obvious you are overestimating the deficits. Will you balance the Budget before 2017-18?

A5. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government projected a deficit of $8.5 billion in 2015-16 and reported a deficit of $5.0B, $3.5B ahead of target despite taking a large valuation allowance on pension plan assets of $1.5B. We are confident that our projections of $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18 can be achieved.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

Q6. Does the fact that your deficit was $2.2 billion lower than projected mean you had more money to bring to the table in labour negotiations?

A6. Ontario's $10.3 billion deficit is in line with the $10.9 billion deficit projected in the 2015 Budget so fiscal projections have not fundamentally changed.

It is also important to point out that through the Public Accounts process, the government is reporting on past performance whereas labour negotiations impact future fiscal pressures.

The government is committed to balancing the budget by 2017-18. While there are difficult choices ahead, the government will continue to take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Moving forward, the government is committed to working with public sector bargaining agents in negotiating collective agreements in a manner that considers all relevant factors, including recent macroeconomic and labour market trends.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

TRILLIUM TRUST

Q7. Have the net proceeds from the sale of the GM holdings been dedicated to the Trillium Trust, and how was that being reported in Public Accounts?

A7. The $1.1 billion gain from the sale of the Province's common and preferred GM shares has been dedicated to the Trillium Trust to invest in Moving Ontario Forward. In addition, the Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million GM shares. As a result, the Trillium Trust now has $1.35 billion available for investment in roads, highways, transit and other infrastructure throughout Ontario.

In September 2016, amounts related to disposition of Hydro One Shares of $3.2B have been credited to the Trust bringing the balance to $4.5B available for the investment in public infrastructure.

The revenues allocated to the Trillium Trust are reported as a schedule to Volume 1 in the 2014-15 Public Accounts. The transactions are also disclosed in the Ministry of Finance statements located in Volume 1 of the Public Accounts.

Q8. How did you spend the $1.35 billion dedicated to the Trillium Trust?

A8. The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

INFRASTRUCTURE – MOVING ONTARIO FORWARD

Q9. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.2 billion difference?

A9. Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

Q10. How much did the government spend on Moving Ontario Forward in 2014-15?

A10. Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including initial spending focused on planning, design, property acquisition and other activities to get projects construction-ready but no infrastructure spending has been applied against the Trillium Trust to date. Initial investments include the first intake of the Ontario Community Infrastructure Fund, funding for the Ontario Northland Transportation Commission and investments in provincial highways. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q11. Why weren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

A11. In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

Q12. How does investing in public infrastructure impact the economy?

A12. A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

ONTARIO'S FINANCIAL POSITION

Q13. Is the government on track to balance the budget by 2017-18?
A13. The government remains firmly committed to balancing the budget by 2017-18 in a way that is both fiscally responsible and fair.

The plan to balance set out in the 2015 Budget projected a deficit of $8.5 billion for 2015-16, followed by a $4.8 billion deficit in 2016-17 and a return to balance the following year.

The government will balance the budget through:

- Program Review, Renewal and Transformation;
- continuing to manage compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability

The Province's plan to balance the budget builds on past success: in each fiscal year between 2010-11 and 2014-15, the government beat its annual deficit target.

The government plans to balance the budget while continuing to make the investments that create jobs, expand opportunities and enhance prosperity for all Ontarians, which were outlined in the most recent budget.

That includes investing in people's talents and skills, building new public infrastructure like roads and transit, creating a dynamic, innovative environment where business thrives, and building a secure retirement savings plan.

Q14. Did you use your reserve to pad your fiscal results?

A14. For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance. The 2014 Budget plan included a $1.0 billion reserve. The reserve does not affect the actual deficit result of $10.3 billion and is only a budgeted amount for variability in results.

Q15. Ontario is still expected to be the last Canadian jurisdiction to return to balance. What are we doing wrong?

A15. Ontario has the lowest per-capita program spending among provinces. Ontario also has the lowest total government revenue per person among all Canadian provinces, including funding from federal transfers.

The government remains firmly committed to balancing the budget by 2017–18.
The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared with the 2014 Budget forecast. This marks the sixth year in a row Ontario has beaten its annual deficit target making the province one of the few governments in Canada to achieve this level of success.

As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic

and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q16. Standard & Poor's downgraded the Province's credit rating from double-A-negative to A-plus because of a combination of "very high debt burden" and "very weak budgetary performance". What is the government doing to manage the debt?

A16. The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared to the 2014 Budget. This marks the sixth year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management. As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q17. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

A17. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation;
- managing compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability.

Q18. How much did government spend in 2014-15?

A18. Total spending for 2014-15 was $128.8 billion, against a planned $130.4 billion. This reflected savings across ministries and their agencies, as well as a lower-than-projected interest expense.

Over the past four years the Province has held average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while continuing to invest in priorities like infrastructure and services like health care and education.

Q19. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

A19. The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2015–16, and has been set at $1.2 billion in each of 2016–17 and 2017–18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

BUDGET SURPLUS and REVENUE INCREASE

Q20. Can you explain the $29 million increase in revenue since your 2015 Budget?

A20. The modest $29 million improvement in revenues is largely due to higher net income of government enterprises like the OPG as well as revenues from other non-tax revenues such as sales, rentals and royalties

These higher revenues were largely offset by lower Taxation Revenues and Federal Payments.

Q21. How did net income from government business enterprises increase by $589 million from your 2014 Budget projection?

A21. This increase was mostly due to OPG's lower operating costs and better market performance of its nuclear funds.

CONTINGECY FUND / RESERVE

Q22. What is the difference between the contingency fund and the reserve?

A22. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events or program pressures (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance.

BUDGET PROJECTIONS vs PUBLIC ACCOUNTS REPORTING

Q23. What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A23. Taxation revenues were $1.1 billion lower due largely to lower corporations' tax revenue ($0.7 billion) and lower sales tax revenue (-$0.2 billion).

Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.

Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

Q24. Why did Ontario's net debt increase by $17.4 billion in 2014-15?

A24. Net debt is the province's total debt and other liabilities, minus its financial assets, including cash and investments. The increase in net debt is primarily due to the deficit, and significant investments in infrastructure. Ontario's net debt-to-GDP is levelling off and the government continues to maintain a target of reducing the ratio to its pre-recession level of 27 per cent. Upon achieving balance in 2017-18, increases in net debt will be limited to borrowing for investments in capital infrastructure.

Q25. How do you explain the $19.2 billion increase in total debt in 2014-15?

A25. The increase in total debt is primarily due to the deficit and significant investments in infrastructure in 2014-15.

Background: Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets, such as Ontario's cash reserves and investments, loans receivables, and investments in Government Business Enterprises (e.g. LCBO, OLGC). Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q26. Why was the interest on debt for 2014-15 $375 million lower than forecast in the 2014 Budget?

A26. Interest on debt is lower primarily because of:

- lower than forecast interest rates
- cost-effective debt management
- a one-time gain from the sale of asset-backed commercial paper that was written down in prior fiscal years.

Q27. Why was interest on debt for 2014-15 $63 million higher than in 2013-14?

A27. The Province pays interest on its total debt. Total debt increased in 2014-15 by $19.2 billion as a result of the deficit and investments in infrastructure causing interest on debt to also increase by $63 million when compared to the previous fiscal year.

Q28. You spent $1.6 billion less than you budgeted for programs. With all the problems facing the Province, aren't you just denying badly needed services to Ontarians?

A28. Ontario's path to a balanced budget is focused on improving the quality of life of all Ontarians. As always, the government must manage its limited resources in a way that is efficient and effective. This means doing some things differently. For example, since launching Ontario's Action Plan for Health Care in January 2012, the government has moved forward in transforming health care in the province from a fragmented system with rising costs, to a system focused on better access, quality and value for all Ontarians. The government has reduced growth in health care spending to about two per cent annually from about six to seven per cent per year, significantly bending the health care cost curve while continuing to improve.

An efficient and effective health care system must be forward looking and anticipate rather than react —based on evidence —so that health care interventions are smart, targeted and effective. Putting the needs of people and patients first will help improve patient outcomes and make the best use of every dollar spent.

Managing growth in spending underpins the government's commitment to achieving a balanced budget by 2017-18. Achieving balance requires a relentless focus on finding smarter, better ways to deliver the best possible value for every dollar we spend.
For example, in the education sector, the School Board Efficiencies and Modernization strategy is helping school boards reduce the costs of managing underutilized school space by consolidating schools, sharing space with other boards and fostering community partnerships.

From an across-government perspective, ministries are working together to better deliver services to people. At the same time, the Province is making tough choices to transform or wind down programs that are not performing, do not link to government priorities or no longer clearly serve the public interest.

While the government continues to invest in priority areas and implement its plan to support economic growth and prosperity, it is also committed to managing program expense growth over the medium term to support a balanced and thoughtful approach to eliminating the deficit.

PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Q29. How are you reviewing and transforming government programs?

A29. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

PRRT is focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs. [2016 Budget, p. 181].

Q30. Has PRRT achieved any tangible results/savings?

A30. The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services;
- Finding internal efficiencies in information technology data centre, desktop and service management operations;
- Modernizing the delivery of natural resources management programs;
- Restraining compensation growth in line with the government's "net zero" policy;
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits;
- Modernizing programs delivered through ServiceOntario;
- Reducing the government's office footprint;
- Getting better value for money invested in health care programs and services.

Examples of Successful Transformation Initiatives [from the 2015 Budget, p. 204]

The government has a strong track record of successfully transforming public services by improving outcomes and managing costs. Examples include:

- Moving from a provider-based to a patient-based health care funding model, which includes updating and rebalancing some OHIP fees to reflect advances in technology and applying the best medical evidence on patient outcomes. Government reform of the Provincial drug program has resulted in savings of $500 million per year.
- Transforming the youth justice system by diverting lower-risk youth in conflict with the law to community-based programs. Expanding rehabilitation programs for approximately 11,000 youth per year has both reduced the risk of reoffending and allowed the government to shut down or repurpose many youth detention centres. Key achievements between 2003 and 2013 include a drop in the number of youth in secure custody from over 1,000 to fewer than 400, and a 43 per cent decrease in the youth crime rate.
- Working with municipalities to allow for localized administration of programs for the homeless so that programs respond better to the needs of the families and individuals involved. This is being done through the Community Homelessness Prevention Initiative, which combines funding from five formerly separate housing and homelessness programs into a single, flexible and locally coordinated program. For further information, see Chapter I, Section F: *A Fair Society*.

In addition, the government is moving forward with opportunities that improve efficiency, reduce overlap across government programs, and ensure that government works better for Ontarians, including:

- Reducing the costs associated with managing under-utilized school space by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.
- Better targeting funding through business support programs, such as the Ontario Interactive Digital Media Tax Credit. Changes proposed in the 2015 Budget include realigning funding from an open-ended tax credit to a grant program, which will improve effectiveness.

Q31. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

A31. The government is committed to protecting the public services that matter the most to Ontarians. This is why it is not making across the board cuts. Instead, the government is using PRRT to balance the budget by carefully and thoughtfully examining how every government dollar is spent while taking outcomes into account.

Q32. Why was the 2014-15 program review savings target of $250 million so much smaller than the $1.1 billion year-end savings target?

A32. The 2014 Budget included a year-end savings target of $1.1 billion for 2014-15. As in past years, the year-end saving provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project start-ups and implementation plans.

The 2014 Budget also included a program review savings target of $250 million in 2014-15. The target was established with a focus on maintaining or enhancing the delivery of public services while reducing costs that are not essential to delivering services.

The $250 million target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

For example, the Ministry of Health and Long Term Care negotiated lower prices for goods and services, achieving savings of approximately $40 million through lower contract costs for vaccines and telehealth services. [See Q.30 for other examples.]

GOVERNMENT ADVERTISING ACT

Q33.What are you doing to ban partisan advertising before an election (Bill 201)?

A33. Although the Government Advertising Act already requires that all government advertising be non-partisan as defined in the Act, it is important to avoid even a perception that the government's advertising might be able to influence an election campaign.

The government brought forward amendments to Bill 201 to extend the time period during which government advertising would be restricted with limited exceptions.

These amendments would, if passed, extend the existing restrictions on government advertising in the Government Advertising Act for a period of 60 days prior to the drop of the writ for a scheduled general election.

Governments have ongoing obligations to communicate with citizens on a range of issues including public health warnings, emergency preparedness, access to identification documents (i.e., health cards, birth certificates, etc.) and public education on civic responsibilities (i.e., submitting taxes, etc.)

If asked about proposed changes to the Election Finances Act:

The Ontario government has also committed to enhance the fairness and integrity of the election system as part of its plan to build a fairer and more inclusive Ontario.

Proposed amendments to the Election Finances Act were introduced by Minister Naqvi, the Government House Leader, on May 17, 2016. Bill 201 was considered in committee and has been reported to the Legislature for Second Reading.

The government's goal is to have reforms in place by January 1, 2017.

Flagship elements include:

- Banning union and corporate donations;
- Reducing individual contribution limits;
- Regulation of pre-writ advertising spending by third parties and political parties; and,
- Spending limits on third-party advertising during election campaigns.

Further questions should be directed to the Government House Leader.

Q 34. The Auditor General has said the Government Advertising Act is not living up to its intended purpose. How do you respond?

A 34. Ontario is still the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

As part of the 2015 Budget, the government modernized the *Government Advertising Act* and broadened the Auditor General's mandate to cover digital advertising as well as transit ads and movie theatre ads.

The Office of the Auditor General continues to have oversight of government advertising, to ensure that an independent third party confirms that the standards of the Act have been met.

Friendly Questions (MOF)

1. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 39.4 per cent. This improvement is a direct result of better than forecast deficits.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last seven years. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

2. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 27 per cent lower, at 8.5 cents of interest costs for every dollar of revenue. This ratio is the lowest it has been in 25 fiscal years or since 1990-91, and is forecast to remain low through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the

weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3 years as of September 30.

3. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, 2015-16 is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

4. Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue.

This ratio is the lowest it has been since 1990-91, and is forecast to remain low through the outlook period in 2018–19.

5. Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

Friendly Questions (TBS)

6. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. Ontario has consistently scored top marks in the C.D. Howe Institute's evaluation of senior government financial reporting transparency and fiscal accountability. For the past several years, Ontario has earned an "A" on overall measures. The Institute's latest report included some new measures, which caused Ontario's rank to fall to "A-." The results differ from those in previous iterations of the report because of modifications in the Institute's grading system as well as changes in the financial reports themselves.

The Institute noted that Ontario's presentation of its consolidated financial statements was a key strength when compared to other jurisdictions. Further, the Institute ranked Ontario first overall regarding the accuracy of its budgeted spending forecasts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. How does the Financial Statement Discussion and Analysis meet the best practices recommended by Public Sector Accounting Board?

A.: In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.* The two pieces of legislation work together to ensure a principled financial management framework for Ontario.

In addition, the government has taken steps to enhance transparency and accountability and to make the information more accessible and understandable for the average person. We've used data visualization in the past, and this year we are supplementing the information with more online tools and graphics. This means the average person is better able to understand the trends in balance sheet and operating activities in the last five years. It also means a person can more search through the data more easily.

We've also made improvements after a recommendation by the Auditor General about the Financial Statement Discussion and Analysis section of the government's Annual Report.

We've changed the format and layout of this section to ensure it's presenting the province's key financial facts in a non-partisan manner.

Expanding beyond the Auditor General's recommendations, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

8. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs
- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

9. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18.

By continuing to beat our fiscal targets, and through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

10. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

11. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

12. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

Friendly Questions (WSIB)

13. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might

have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where the province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Following the 2009 report of the Auditor General, the government took steps to amend the *WSIA* to confirm the independence of the WSIB and reinforce its Trust status.

14. What progress has the WSIB made on its target to be fully funded by 2027?

A. Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. Our Sufficiency Ratio is forecasted to reach 85% by the end of the year, compared with 54.2% (funding ratio) in 2009.

The UFL is being reduced ahead of schedule - from a peak of $14.2 billion in 2011, the UFL has now been brought down to $5.6 billion (sufficiency basis) in 2016 (Q2).

We have updated our funding trajectory as part of our 2016 economic statement and we expect to reach 100% sufficiency by 2021, six years ahead of the legislated requirement.

Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

Increased premium revenue from employers that was collected specifically to decrease the UFL.

Higher investment returns than long-term targets.

Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.

Improved recovery and return-to-work results – achieved through the WSIB's health care and return-to-work initiatives, along with more efficiency in the claims management process.

15. Can you please give us an update on the status of the WSIB review of its long term financial viability?

A. Long-term viability is about getting to a funding level which will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability for employers.

In order to moderate the risk of any future UFL in the event of economic shocks, the WSIB plans to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding. This target was determined by examining the Office of the Superintendent of Financial Institutions (OSFI) guidelines and funding levels maintained by other workplace compensation boards.

The WSIB's current estimated trajectory shows us reaching full funding (115%) by 2025 while offering premium rate reductions of 5% in each of 2017, 2018 and 2019. Projections also include potential rate reductions of 15-20% between 2023 and 2027.

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive Post Traumatic Stress Disorder (PTSD) legislation, indexation of partial benefits), invest in our systems to improve service, and lower premium rates.

2015-16 Public Accounts
General Questions & Answers

Qs & As

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2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

KEY MESSAGES

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However the government remains optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

TOP QUESTIONS

Q1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

A1. This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

The government believes that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The government will ensure that the task force is made aware of this area of difference in interpretation.

In addition, the government will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The government will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q2. Why did the government release its financial statements without the Auditor approving them?

A2. This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference interpretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government released its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

A3. No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A4. A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the government has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

Q5. Is the Auditor General misinterpreting Public Sector Accounting Board standards?

A5. The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months the government will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

A6. According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

A7. The government only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q8. If the government things its right, why would the government change the numbers?

A8. To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized.

Q9. Was there something wrong with the accounting rules that the government was using before?

A9. No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

Q10. Why hasn't the Auditor General raised this with you in the past two years?

A10. I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

Q11. So what happens next? When will you table the actual Public Accounts?

A11. The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

A12. Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

Standing Committee on Public Accounts
Wednesday, November 4th 2015

Questions from Committee Members on AG's 2014 Annual Report

Progressive Conservative Party Questions/Comments/Issues

Based on the Financial Accountability Officer's report:

- The government claims that it will be in balance in 2017-18, but the FAO claimed that the government will still be in deficit of up to $3.5 billion
- Hydro sale will come with an initial income boost, but government will lose income over the longer term
- How will the government get to balance if the economy is slowing and a credit rating decrease will increase the cost of borrowing?
- How will the government get to balance – will it be raising revenues by increasing taxes; getting more money from the federal government; cutbacks and/or layoffs? or asset sales?

In terms of debt reduction (the net debt to GDP target) – how close is the government to achieving this and what is the plan?

If growth is slower, leading to reduced revenues – does the government rejig projections? How does the government make up for lost revenue – by increasing the land transfer tax or implementing a carbon tax?

What is the contribution to the economy of investing in capital assets?

When the government funds capital assets at the municipal level, the municipality still needs to pay for operating costs for the asset. How does that figure into the overall growing of the economy?

What is the impact of selling capital assets on the economy?

**There was a question on the loss of revenue from ORPP contributions and one on split pensions, but a government member suggested that they were not in order because they were not covered in Public Accounts.

New Democratic Party Questions/Comments/Issues

What is the impact of the hydro sell-off on net-debt-to-total-annual-revenue ratio?

$900 million in revenue came from Ontario Hydro and Ontario Power Generation. How much came from each company?

Has Hydro One traditionally brought in more revenue than forecasted?

Why has the stranded debt not been paid off when it was originally $7.8 billion and the government has collected $11.5 billion?

The stranded debt charge that business pay is supposed to end in 2018. Will it continue to drop so that business does not have to pay after 2018?

Will there be forecasted targets for the debt retirement charge to drop in 2016, 2017 and 2018?

How will the sale of Hydro One and the loss of its revenues ($500 million/year) affect the net-debt-to-total-annual-revenue ratio?

With the increase in the federal debt, will investors still want to buy Ontario debt? What happens if the demand for Ontario debt shrinks?

Program expenses are less – what was cut to achieve this?

Liberal Party Questions/Comments/Issues

What is the forecasted net-debt-to-GDP? Why is this important? What is the effect on the commitment to balance in 2017-18?

What is the material impact of the S&P downgrade on the province's finances?

The government is lucky that interest rates are low. Discuss the prudent measures taken by the government to manage the debt and to mitigate the risk of increased interest rates.

Discuss the uncertainties about the transfers from the federal government.

Provide an update on the Pension Benefit Guarantee Fund.

What is the impact of the infrastructure investments on the economy?

Why is it important that the government beats its deficit reduction target?

Can you talk more about how the government is controlling spending and reviewing spending through the program renewal, review and transformation?

August 30, 2016

ONTARIO'S CREDIT RATINGS

What is the status of Ontario's credit ratings?

SUGGESTED RESPONSE

- **The Financial Accountability Office (FAO) has released a commentary "Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance."**
    - **According to the FAO "the credit agencies' affirmation of Ontario's credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency's rating methodology differs slightly, they all believe that Ontario's debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.**
- **Ontario has always valued the input of third-party analysis as an important checkpoint in ensuring that our fiscal plan is credible, reliable and transparent.**
- **Ontario's credit ratings are:**
    - **Moody's: Aa2**
    - **DBRS: AA (low)**
    - **Fitch: AA-**
    - **Standard and Poor's: A+**
- **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19. In 2015-16, Ontario is once again projected to beat its deficit target for the seventh year in a row. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.**
- **We will continue to reduce the deficit through a fair and balanced approach. The 2016 budget is focused on strategic investments that stimulate economic growth and job creation including investing over $160 billion in infrastructure projects across the province over the next 12 years. Even with these investments, our government has the lowest program spending per capita of any province in Canada.**

- **Furthermore, between 2010-11 and 2014-15, our government has held program expense growth to an average annual rate of 1.4 per cent, while still supporting the vital public services that Ontarians rely on, like health care, education and social services. We have achieved this by finding new and more efficient ways to deliver the best value for Ontarians.**

BACKGROUND

FAO Commentary on Credit Rating Agencies

On August 30, 2016, the Financial Accountability Officer released a commentary titled “Credit Rating Agencies Satisfied with Ontario’s Progress to Fiscal Balance”.

According to the FAO, the credit agencies’ affirmation of Ontario’s credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency’s rating methodology differs slightly, they all believe that Ontario’s debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.

This consensus view of the rating agencies is consistent with the FAO’s own analysis, which concluded that the Province should be able to achieve fiscal balance in 2017-18 and that Ontario’s debt-to-GDP ratio would decline modestly over the next five years.

According to the FAO, the rating agencies generally assume that the Province will maintain fiscal balance , beyond 2017-18 based on its ability to restrain expenditure growth and increase revenues as required. However, the FAO notes that the agencies all expect that the Province will be “challenged” to maintain expenditure restraint indefinitely, given mounting spending pressures.

The FAO notes that the agencies continue to emphasize that the Province’s relatively high debt burden compared to other provinces and international peers, remains a key weakness for Ontario’s credit outlook. Indeed, Ontario’s relatively high debt burden was an important determinant behind both Fitch and S&P’s decision to downgrade the Province’s credit rating in December 2014 and July 2015.

According to the FAO, if Ontario’s fiscal balance were to return to deficit beyond 2017-18, either through an easing of expenditure management restraint or through unexpected weakness in revenues (as a result of slower than expected economic growth), the agencies would be expected to revise Ontario’s credit outlook to negative followed by a potential credit rating downgrade. A credit rating downgrade could lead to higher borrowing costs for Ontario and a more difficult fiscal position.

Fitch

The tabled budget for fiscal 2017 follows the province’s plan to eliminate its annual budget deficits by fiscal 2018. Despite an uptick in the annual deficit in fiscal 2014, the province has recorded two successive years of declines since then and Fitch believes it remains on track to achieve its target assuming continued economic growth.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives.

Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

S&P

The stable outlook reflects expectations that the province's liquidity will continue to be average in the next two years, real GDP growth will be above 2% and operating revenue growth will lead to operating surpluses beginning in fiscal 2017.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

According to S&P, the debt burden should continue to decline, reaching below 240% of projected consolidated operating revenues by fiscal 2019.

Near-balanced after-capital results and continuing declines in Ontario's tax-supported debt burden could result in a positive outlook or upgrade.

DBRS

The trend remains Stable, supported by the Province's continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook.

A positive rating action, appears highly unlikely over the medium term, as it would require improvements in fiscal performance on a sustained basis to reduce debt to a level more commensurate with the AA-range rating.

Alternatively, although not anticipated by DBRS in the current environment, a negative rating action could result from a relaxation in fiscal discipline, or an unforeseen economic shock that leads to deteriorating fiscal performance and rising debt.

Moody's

The stable outlook reflects Moody's view that the province's debt burden will continue to modestly improve as the province moves towards balanced budgets and therefore reduces its annual financing requirements.

With the return to balanced budgets on the horizon, aided by continued expenditure control and increasing revenues, the debt burden is expected to show slight improvements over the medium-term as annual financing requirements decrease.

Although the province forecasts only thin surpluses in the years immediately following the planned return to balance in 2017/18,Ontario has included some contingencies to help ensure it achieves its fiscal targets and therefore reduce the likelihood of incurring further deficits.

The current low interest rate environment has enabled the province to extend the maturity of its debt profile and issue long-term debt bearing historically low coupons which has also kept debt service low and manageable.

The province's large and diversified economy and growing population provides access to a broad and productive tax base and, as such, remains a source of credit strength.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Negative Outlook removed on April 26, 2016
DBRS	AA (low)	R-1 (mid)	Confirmed, May 20, 2016
Fitch	AA-	F1+	Confirmed June 22, 2016
S&P	A+	A-1+	Confirmed June 1, 2016

Ontario's Long-Term Credit Rating History 1990-2016

Year	S&P	Moody's	DBRS	Fitch
2016	A+	Aa2	AA (low)	AA-
2015	A+	Aa2 (N)	AA (low)	AA-
2014	AA- (N)	Aa2 (N)	AA (low)	AA-
2013	AA- (N)	Aa2	AA (low)	AA (N)
2012	AA- (N)	Aa2	AA (low)	AA (N)
2011	AA-	Aa1 (N)	AA (low)	AA (N)
2010	AA-	Aa1	AA (low)	AA
2009	AA-	Aa1	AA (low)	AA
2008	AA	Aa1	AA	AA
2007	AA	Aa1	AA	AA
2006	AA	Aa1	AA	
2005	AA	Aa2	AA	
2004	AA	Aa2	AA (N)	
2003	AA	Aa2	AA	
2002	AA	Aa2	AA	

2001	AA	Aa3 (P)	AA	
2000	AA- (P)	Aa3	AA(low) (P)	
1999	AA-	Aa3	AA(low)	
1998	AA-	Aa3	A(high)	
1997	AA-	Aa3	A(high)	
1996	AA-	Aa3	A(high)	
1995	AA-	Aa3	A(high)	
1994	AA-	Aa3	A(high)	
1993	AA-	Aa2	A(high)	
1992	AA (N)	Aa2	AA(low) (CW-N)	
1991	AA+ (N)	Aa2	AA(low)	
1990	AAA	Aaa	AA	

Provincial Rating Comparison

Province	**S&P**	**Moody's**	**DBRS**	**Fitch**
Canada	AAA	Aaa	AAA	AAA
Ontario	**A+**	**Aa2**	**AA (low)**	**AA-**
British Columbia	AAA	Aaa	AA (high)	AAA
Saskatchewan	AA+ (N)	Aaa	AA	AA
Alberta	AA (N)	Aa1 (N)	AA (high)	Not Rated
Manitoba	AA-(N)	Aa2	A (high)	Not Rated
New Brunswick	A+	Aa2	A (high)	Not Rated
Northwest Territories	Not Rated	Aa1	Not Rated	Not Rated
Quebec	A+(P)	Aa2	A (high)	AA-
Nova Scotia	A+	Aa2	A (high)	Not Rated
PEI	A	Aa2	A (low)	Not Rated

Newfoundland & Labrador	A (N)	Aa3 (N)	A (low)	Not Rated

Agency Rating Scale

Rating	S&P	Moody's	DBRS	Fitch	Definition
Triple A	AAA	Aaa	AAA	AAA	Highest rating possible; capacity to pay interest and repay principal extremely strong.
Double A	AA+	Aa1	AA (high)	AA+	Has a very strong capacity to pay interest and principal and differs from triple A only in a small degree.
	AA	Aa2	AA	AA	
	AA-	Aa3	AA (low)	AA-	
Single A	A+	A1	A (high)	A+	Has a strong capacity to pay interest and principal, but more susceptible to adverse developments than higher rated categories.
	A	A2	A	A	
	A-	A3	A (low)	A-	

Ontario's ratings

Prepared by: Bonnie Lemcke, 416 325 8170
Ontario Financing Authority
Date Prepared: August 19, 2016

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain unchanged in 2016–17, and begin to decline in 2017–18.**

- **We will maintain a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.**

- **The first very important step in returning the net debt-to-GDP ratio to its pre-recessionary levels is to balance the budget in 2017-18.**

    - **Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets.**
        - **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.**
        - **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.**
    - **Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.**

    - **With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.**

    - **Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.**

Borrowing Program

- **Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year.**

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

- **Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009-10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. We are consistently making strategic and prudent decisions that will benefit the Ontario economy and ensure fiscal security.**

CURRENT STATUS

FAO Commentary on Ontario's Provincial Debt

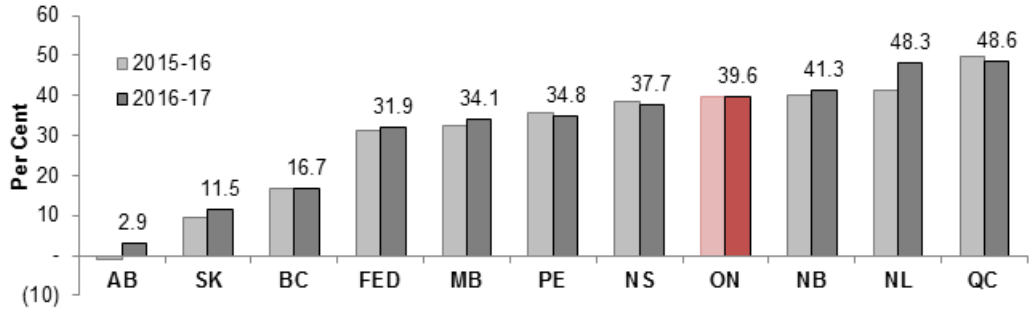
On July 19th, the Financial Accountability Officer released a commentary on Ontario's Provincial Debt, the commentary's key messages were as follows:

- The Government of Ontario's debt burden is one of the highest among provincial governments in Canada

    - Response: The FAO's commentary is based on data from 2014-15. Using more recent information, Ontario's net debt-to-GDP ratio ranks 4th after Quebec, Newfoundland & Labrador and New Brunswick in 2015-16.

    - Ontario's net debt as a share of GDP is projected to remain at 39.6 per cent through 2015-16 and into 2016-17.

Projected Net Debt-to-GDP Ratio by Jurisdiction, 2015-16 and 2016-17



Source: Budgets. Updates and 2014-15 Public Accounts; Conference Board of Canada (May 2016 GDP figures)
Note: For all Figures, accounting standards vary between jurisdictions and within jurisdictions across years. Values may not be directly comparable due to accounting differences across provinces. Federal net debt reflects accumulated debt to match federal public reporting. Data labels correspond to the net debt to GDP ratio for the 2016-17 fiscal year.

- The Province's market debt consists of publicly held bonds, treasury bills, and US commercial paper issued in Canadian dollars and foreign currencies. The effective interest rate on the publicly held debt is 3.6 per cent.

    - Response: Going back to the beginning of fiscal 2010–11,the Province has issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009–10.

- There is uncertainty surrounding the future level of interest rates due to market fluctuations and Ontario's credit risk. All else equal, an increase in interest rates would lead to higher interest payments, which would reduce the Province's fiscal flexibility.

- Response: Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections.
- Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.

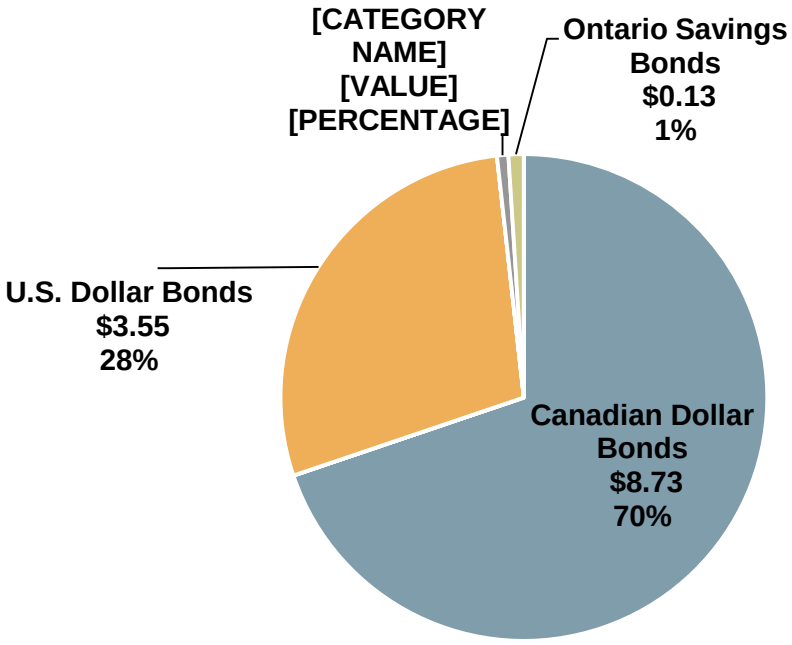
Borrowing Program

Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies through U.S. dollar global bonds, and Australian dollar Kangaroo bonds.

Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario spreads relative to Canada have fallen since the 2016 Ontario Budget.

2016–17 Borrowing Completed: $12.5 billion

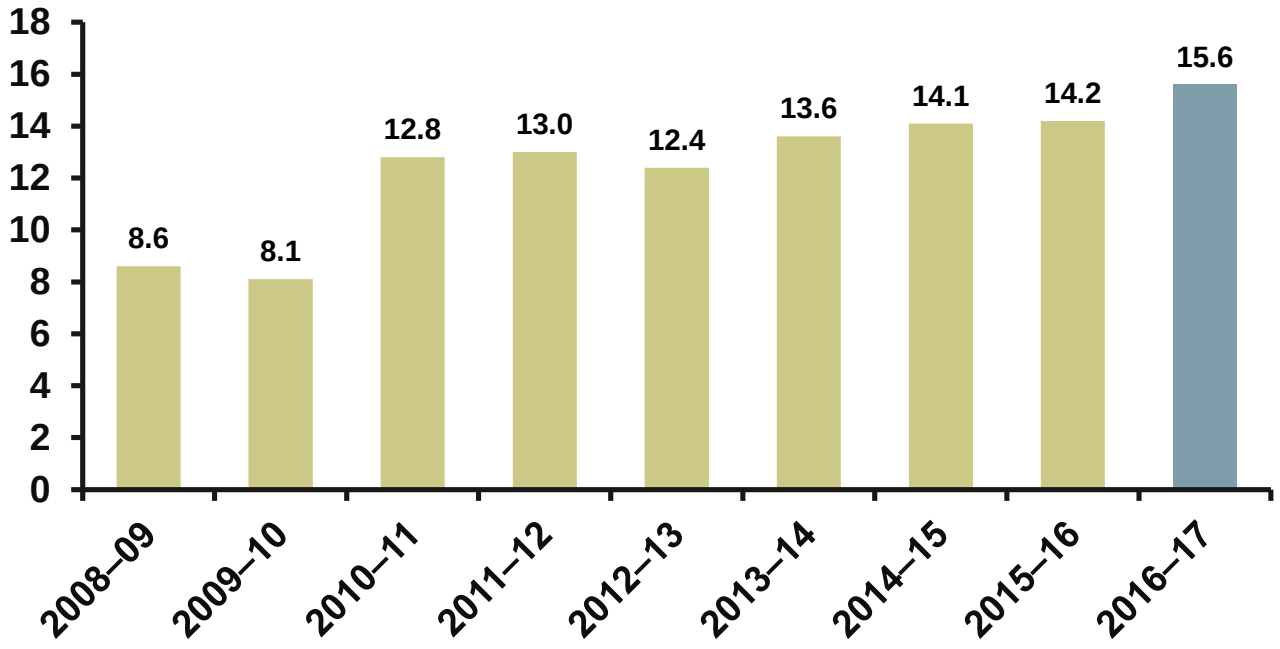


Note: Numbers may not add due to rounding

The Province may revise its Canadian dollar borrowing target of 75 per cent published in the 2016 Budget if international demand for Ontario bonds outpaces domestic demand.

Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years.

Average Term (years)



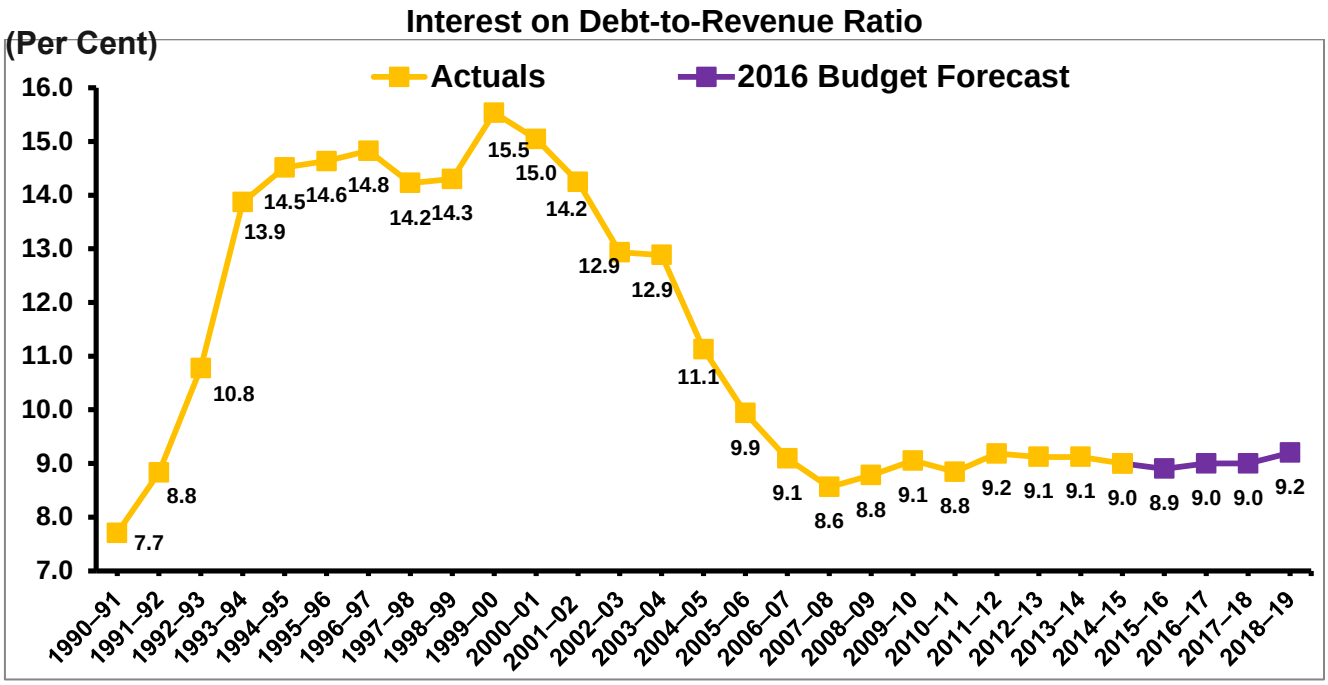
Interest on Debt

Ontario's interest on debt (IOD) is projected to remain at $11.8 billion for 2016-17, rising to $12.5 billion and $13.1 billion for 2017-18 and 2018-19, respectively.

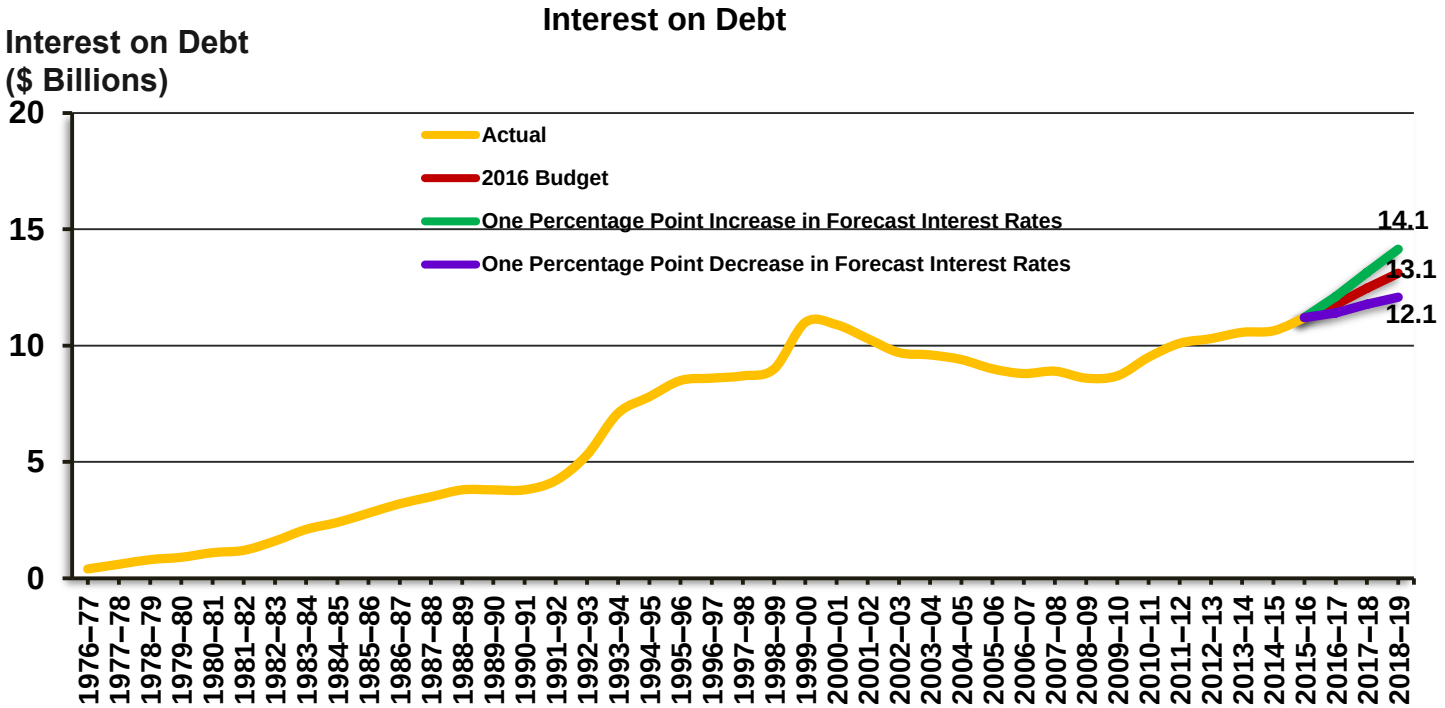
Although IOD increases from 2014–15 to 2017–18, it remains relatively constant as a percentage of government revenue. IOD-to-revenue falls to 8.9% in 2015–16 and is projected to remain at 9.0% over 2016–17 and 2017–18. As such, the increase in IOD has no impact on the Province's path to balance since its proportionate share of revenue is relatively constant. This ratio remains well below the peak reached in the mid-1990s because of the low interest rate environment over the past decade. IOD as a percentage of revenue is lower today than it was 10 years ago, in spite of more than a $143 billion increase in net debt over that period.

The *2010 Budget* forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0

cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.



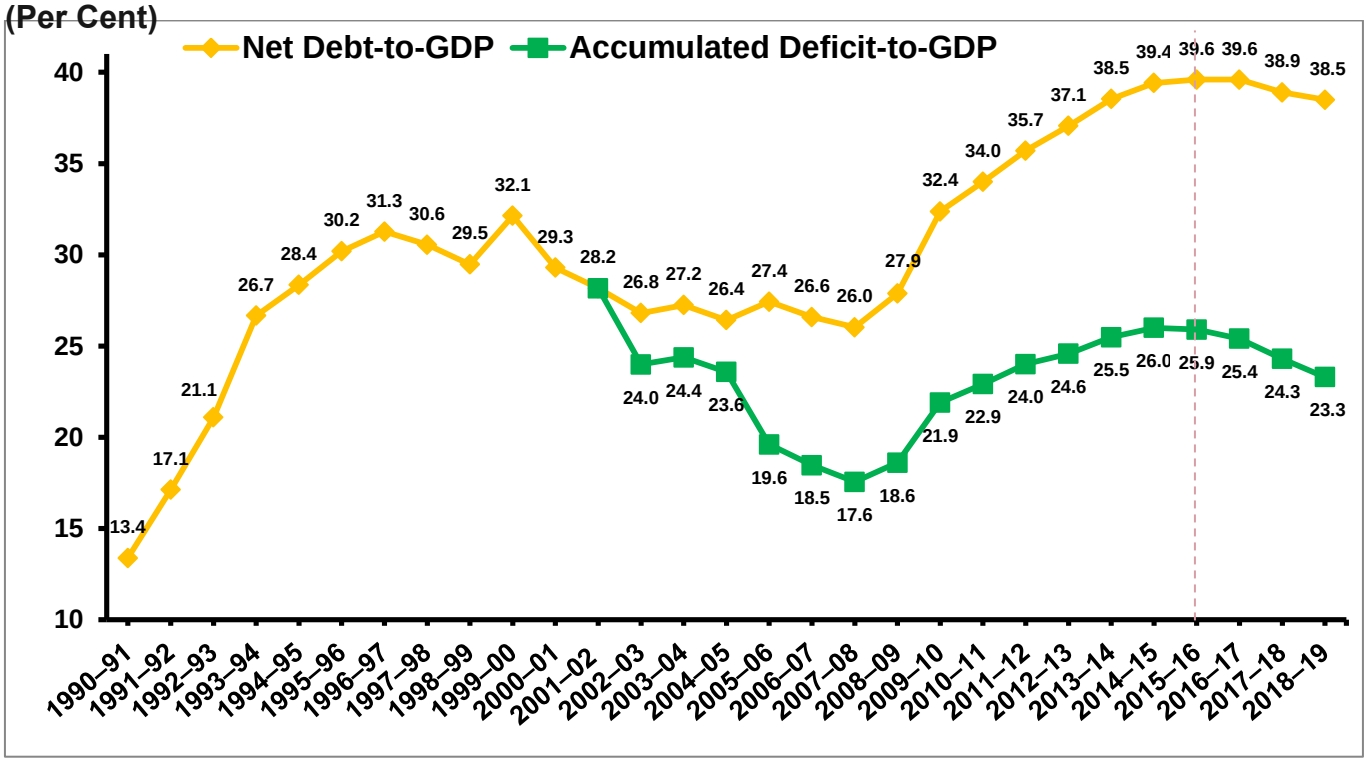
The Province's IOD is sensitive to interest rate fluctuations. A one percentage point change in interest rates would result in a change in Interest on Debt (IOD) of approximately $350 million in 2016–17, rising to $1.03 billion in 2018–19 alone. Rising IOD costs could crowd out spending on government priorities.



Net Debt-to-GDP

The government's strategy of enhancing GDP growth by investing in capital infrastructure has contributed approximately $90 billion to the increase in net debt over the last 13 years. Over the medium-term, net investments in capital assets will contribute over $26 billion to the total increase in net debt of close to $31 billion.

Net Debt-to-GDP and Accumulated Deficit-to-GDP



Debt Management

The Ontario Financing Authority uses a number of financial instruments, including options and swaps, to prudently manage risk. These financial instruments, or derivatives, are used primarily for hedging purposes and do not create net leverage. They are used to transform the cost of borrowing into Canadian dollars and foreign currency exposure from bond issues not denominated in Canadian dollars.

BACKGROUND

The three commonly used indicators of a government's financial and debt position are net debt, total debt, and accumulated deficit. Credit rating agencies and investors place the greatest emphasis on net debt.

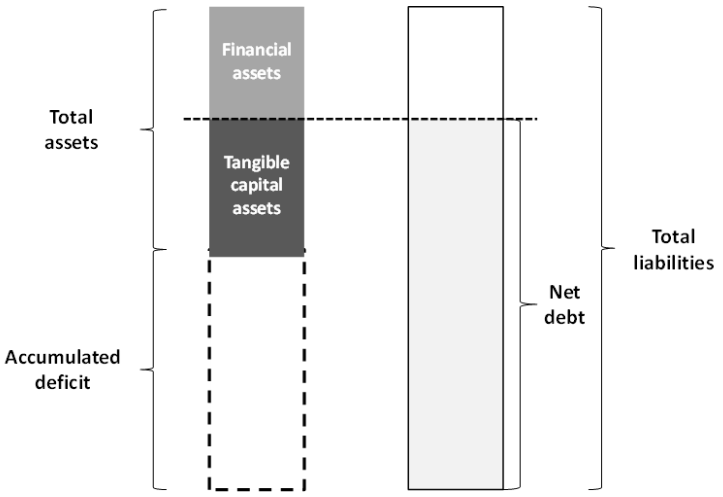
Net debt is the difference between the Province's total liabilities and financial assets. Ontario's net debt is projected to increase from $296.1 billion as at March 31, 2016 to $308.3 billion as at March 31, 2017, and $316.9 billion as at March 31, 2018 and $326.8 billion as at March 31, 2019. The increase in net debt primarily reflects the projected deficit, plus the increase in tangible capital assets of the Province. Financial markets use Net Debt as their primary measure because it represents the Province's future revenue requirements to pay for past transactions and events.

Total debt is the sum of the Province's total borrowings including Ontario Electricity Financial Corporation and agencies. Total debt is projected to increase from $315.0 billion as at March 31, 2015 to $325.3 billion as at March 31, 2016. This increase will be used mainly to fund the projected deficits and the government's capital investments. Canadian dollar denominated debt represents 81 per cent of the total debt projected as at March 31, 2016.

Accumulated deficit represents the sum of all deficits and surpluses. The accumulated deficit is projected to increase from $193.4 billion as at March 31, 2016 to $197.8 billion as at March 31, 2017. Accumulated deficit is projected to be $197.7 billion as at March 31, 2018 and remain unchanged as at March 31, 2019.

Accumulated deficit is not widely used in the financial markets, as it excludes debt raised for capital expenditures.

Net debt, Accumulated Deficit and Tangible Capital Assets



NET DEBT AND INTEREST ON DEBT: 1993-2018

	Net Debt ($ billions)	Net Debt (% of GDP) [5]	Interest on Debt ($ billions)	Interest on Debt (% of Revenue)[1]
1993-94	80.6	26.7	7.1	13.9
1994-95	90.7	28.4	7.8	14.5
1995-96	101.9	30.2	8.5	14.6
1996-97	108.8	31.3	8.6	14.8
1997-98	112.7	30.6	8.7	14.2
1998-99	114.7	29.5	9.0	14.3
1999-2000[2]	134.4	32.1	11.0	15.5
2000-01	132.5	29.3	10.9	15.0
2001-02	132.1	28.2	10.3	14.2
2002-03	132.6	26.8	9.7	12.9
2003-04	138.8	27.2	9.6	12.9
2004-05	140.9	26.4	9.4	11.1
2005-06[3]	152.7	27.4	9.0	9.9
2006-07	153.7	26.6	8.8	9.1
2007-08[4]	156.6	26.0	8.9	8.6
2008-09	169.6	27.9	8.6	8.8
2009-10	193.6	32.4	8.7	9.1
2010-11	214.5	34.0	9.5	8.8
2011-12	235.6	35.7	10.1	9.2
2012-13	252.1	37.1	10.3	9.1
2013-14	267.2	38.5	10.6	9.1
2014-15	284.6	39.4	10.6	9.0
2015-16 (Forecast)	296.1	39.6	11.2	8.9
2016-17 (Forecast)	308.3	39.6	11.8	9.0
2017-18 (Forecast)	316.9	38.9	12.5	9.0
2018-19 (Forecast)	326.8	38.5	13.1	9.2

Sources: 2014-15 Public Accounts, Ontario Budgets from 1993 to 2016.
1. In the 2009-10 Public Accounts, education property taxes were included in provincial revenue and no longer netted against education expense. To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change.
2. Starting in 1999-2000, the net debt includes the unfunded liability (stranded debt) of OEFC and interest on debt includes interest on OEFC debt.
3. Starting in 2005-06, the net debt includes the net debt of hospitals, school boards, and colleges that were recognized upon consolidation.
4. Starting in 2007-08, the net debt includes the unrealized gains and losses in the Ontario Nuclear Funds Agreement.
5. Historical Net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015.

Date Updated: August 31, 2016
Prepared by: Erica Wieder, Manager, Investor Relations (416-325-1661)

August 19, 2016

GREEN BONDS

What is the status of Ontario's green bond program?

SUGGESTED RESPONSE

- **On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million.**

- **There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade.**

- **The Province's second green bond was issued through its current domestic dealer group to Canadian and international institutional investors to continue to help to establish a Canadian-dollar green bond market and attract new investors.**

- **Retail investors were able to buy Ontario's green bonds through a Canadian financial institution.**

- **As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.**

- **Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation. Projects include:**

    - **Eglinton Crosstown Light Rail Transit ($402 million)**
    - **vivaNext Bus Rapid Transit ($100 million)**
    - **Regional Express Rail ($200 million)**
    - **Sheridan College ($68 million)**
    - **St Joseph's Hamilton Healthcare – West 5th ($14 million)**
    - **St Joseph's Health Care–London & St Thomas ($5 million)**
    - **Waypoint Centre for Mental Health ($2 million)**
    - **CAMH – Phase 1B ($2 million)**

- **All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.**

- **To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.**

- **Ontario's Green Bond Framework sets out the types of projects that may be eligible for green bonds, including:**

    1. **Clean transportation**
    2. **Energy efficiency and conservation**
    3. **Clean energy and technology**
    4. **Forestry, agriculture and land management**
    5. **Climate adaptation and resilience**

- **The size of future green bond issues will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year.**

CURRENT STATUS

Green Bond Issuance

On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond. It matures on January 27, 2023 and has a coupon of 1.95 per cent.

There was strong demand for Ontario's second Green Bond issue. Investors with green mandates in Canada as well as in the United States and Europe participated in the deal. Global offering format was used to leverage and facilitate international investor interest with strong trading liquidity supported by Ontario's current domestic dealer syndicate.

52 accounts participated in the transaction with 70 per cent of the deal allocated to investors with Green mandates and/or signatories to the UN Principles for Responsible Investment (PRI) initiative. Interest was driven by Asset Managers (54%), Insurance Companies (19%) and Banks (15%). Ontario added three new investors and expanded its Canadian dollar investor base by seven names.

These bonds capitalize on the Province's ability to raise funds at low interest rates, and serve as a tool for the government to address critical infrastructure needs.

Eight projects have been selected as eligible and are expected to receive funding from this Green Bond, with an emphasis on clean transportation and energy efficiency and conservation:

Clean Transportation Category	**Forecasted Funding ($ Millions)**
Eglinton Crosstown Light Rail Transit	402
vivaNext Bus Rapid Transit	100
Regional Express Rail	200
Energy Efficiency & Conservation Category	
Sheridan College	68
St Joseph's HH –West 5th	14
St Joseph's HC –London and St. Thomas	5

Waypoint Centre for Mental Health	2
CAMH –Phase 1B	2

All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.

The Eglinton Crosstown LRT was selected as the first project to receive Green Bond funding for $500 million in 2014. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Green Bond Program

Ontario's first and second green bonds were issued at yields similar to conventional Ontario bonds of comparable term and size.

The size of each green bond issue will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year. Assuming adequate demand, Ontario's green project pipeline is expected to easily support a green bond borrowing program and serve as a source of funding well into the future.

Ontario's green bonds are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects.

Retail Investors

Retail investors have been able to participate (through Canadian financial institutions) in both of the Province's Green Bond issues, accounting for approximately one per cent of total sales, in line with to slightly greater than the demand experienced with Ontario's regular domestic issues.

It is unknown to what extent Ontario retail investors would be motivated to buy green bonds if they are offered in a format similar to OSBs. Other international issuers who have attempted a direct retail approach for green bonds have struggled to raise funds.

Green Bond Framework

Ontario has developed a robust green bond framework that aligns with Ontario's environmental policies and climate objectives.

Ontario's Green Bond Framework sets out the types of projects that may be eligible for funding from green bonds. Without limitation, eligible projects may include projects in the following five categories identified in the Province of Ontario's Green Bond Framework, excluding fossil fuel and nuclear energy projects:

1. Clean transportation
2. Energy efficiency and conservation
3. Clean energy and technology
4. Forestry, agriculture and land management
5. Climate adaptation and resilience

Ontario's Green Bond Framework has been developed in consultation with the Centre for International Climate and Environmental Research – Oslo (CICERO).

Ontario's Green Bond program also aligns with the Green Bond Principles maintained by the International Capital Markets Association.

Project Selection

The selection of eligible green projects is done on behalf of the Province by the Ontario Financing Authority (OFA) staff with advice from the Province's Green Bond Advisory Panel (GBAP):

- Only fully approved projects are eligible for consideration. Spending authority for eligible green projects comes through approved ministry and agency spending in accordance with the Province's usual government appropriation and spending processes.

- OFA staff screen projects for all applicable approvals and against eligibility criteria prior to advancing projects to the GBAP for assessment.

- The GBAP, which includes staff from various ministries and agencies, including the Ministry of the Environment and Climate Change and the OFA, evaluates and recommends projects for inclusion in Ontario's Green Bond program.

Projects considered for green bonds will be consistent with Ontario's robust environmental policies and standards and limited to the categories in the Province's Green Bond Framework.

Use of Proceeds

Green Bond proceeds are paid into the Consolidated Revenue Fund of Ontario and are not held in a segregated account. An amount equal to the net proceeds of the bonds is recorded in a designated account in the Province of Ontario's financial records. This designated account is used to track the use of and allocation of funds to eligible projects. So long as the bonds are outstanding and the designated account has a positive balance, amounts are deducted from this account as funds are allocated to eligible projects.

Green projects will have funding requirements that occur within a twelve month period following and six month period prior to the issue of the green bond.

Updates on the selected green projects and allocation of funds to these projects will be reported to investors in an annual newsletter on the website of the Ontario Financing Authority. The first newsletter was published in late 2015.

An assurance audit will also be provided by the Auditor General of Ontario to verify amounts used for selected projects and the balance of proceeds remaining. This assurance audit is expected annually until all green bond proceeds have been allocated to selected projects.

August 8, 2016

OLD ONTARIO HYDRO'S STRANDED DEBT

What is the status of the old Ontario Hydro's "stranded debt", managed by Ontario Electricity Financial Corporation (OEFC)?

SUGGESTED RESPONSE

- **Based on interim numbers in Budget 2016, this is the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004.**

- **The electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. This allowed the government to follow through on its commitment to reduce electricity cost pressures.**

Ending the Debt Retirement Charge

- **As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.**
  - **This would save a typical residential user about $70 each year and mean ending the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.**

- **As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act*, *2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.**
  - **A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;**
  - **For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and**
  - **A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.**

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

- **In Budget 2015, it had been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could have extended beyond 2018, to the end of 2019 or later.**

  Prior to the Budget Measures Act 2015 amendments of the Electricity Act, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

- **This was subject to uncertainty as it depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities; the broadening of ownership of Hydro One; and other factors such as interest rates and electricity consumption.**

- **Residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments in lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.**

- **As published in the 2015 Ontario Economic Outlook and Fiscal Review, the residual stranded debt was estimated at $2.2 billion as at March 31, 2015, an estimated reduction of $9.7 billion from an estimated peak of $11.9 billion as at March 31, 2004.**

- **The amendments to the *Electricity Act, 1998* in the *Budget Measures Act, 2015* has removed legislative references to the stranded debt and residual stranded debt (RSD), as a fixed DRC end date would mean that they no longer serve a legal purpose.**

- **OEFC will continue to prepare and submit an annual report, including an update on its unfunded liability (often called "stranded debt") in its annual financial statements, as required under the Electricity Act.**

<u>Prudent Management Of Electricity Sector Debt</u>

- **Under the *Electricity Act, 1998*, the Ontario Electricity Financial Corporation (OEFC) will continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing certainty to commercial, industrial, and all other electricity users.**

- **Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.**

- **As announced in Budget 2016, the interim results of OEFC for 2015-16 show a reduction in stranded debt of more than $3 billion, to below $5 billion as at March 31, 2016. This would be the twelfth consecutive year that the stranded debt has been reduced, by a cumulative reduction of more than $15 billion between March 31, 2004 and March 31, 2016, based on the interim numbers.**

  - **Projected 2016-17 OEFC results are an excess of revenue over expense of about $0.6 billion.**

- **The government dedicates the revenues it receives from the electricity sector to OEFC. All OEFC revenues, including the DRC paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.**

- **This includes payment of interest costs. OEFC's interest expense is currently about $1.4 billion per year and has totalled about $30.6 billion between April 1, 1999 and March 31, 2015.**

- **The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.**

- **Stranded debt increased from April 1, 1999, to March 31, 2004 by over $1 billion.**
  - **The increase in stranded debt was primarily a result of the 4.3 ¢/kWh electricity price freeze, which cost about $900 million from May 1, 2002, to March 31, 2004.**

BACKGROUND

OEFC

OEFC is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro (OPG, Hydro One, IESO, Electrical Safety Authority, and OEFC). OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

Unfunded Liability / Stranded Debt

The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19.4 billion on April 1, 1999. OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Ending the DRC

The *Electricity Act, 1998*, previously allowed for the DRC to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

As part of its commitment to reduce electricity cost pressures, the government removed the DRC cost from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise had been provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation Bill 144, the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Under the *Electricity Act*, the ability for OEFC to be wound up is tied to when substantially all the debts and other liabilities of OEFC have been retired or defeased.

Prudent Management of Electricity Sector Debt

Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act*, *1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

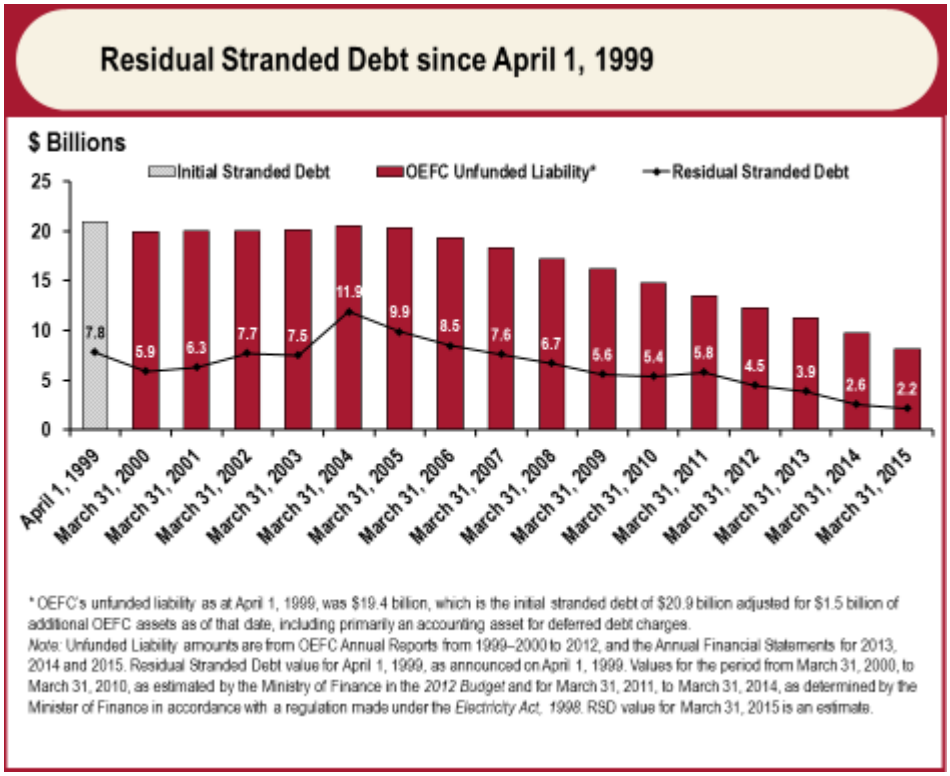
On May 15, 2012, the government filed Ontario Regulation 89/12, as provided for at that time under the *Electricity Act, 1998*, on the determination of the residual stranded debt, consistent with the recommendations of the Auditor General in his 2011 Annual Report that the residual stranded debt be determined in the near future.
The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the

previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2015.



<u>OEFC Dedicated Revenues</u>

OEFC is the legal continuation of the former Ontario Hydro with a mandate to service and retire the former Ontario Hydro's debt and certain other liabilities. The government has a long-term plan in place to retire OEFC's obligation from sources within the electricity sector, including the following:

Notes Receivable: OEFC receives principal and interest payments on notes from OPG, the Independent Electricity System Operator (IESO), and the Province. (Hydro One no longer owes any notes to OEFC.)

Payments-in-lieu (PILs) of Taxes: OEFC receives PILs from OPG, Hydro One, and MEUs.

On December 10, 2015, Bill 144, the *Budget Measures Act, 2015*, was passed, directing to OEFC Hydro One Inc.'s provincial corporate income taxes under the *Taxation Act, 2007*.

Gross Revenue Charge (GRC): OEFC receives a portion of the GRC that replaced property tax PILs on hydroelectric generating stations that are or were owned by OPG or MEUs. The GRC replaced existing property tax PILs for these facilities effective January 1, 2001.

Debt Retirement Charge (DRC): OEFC receives revenue from the DRC of 0.7 ¢/kWh levied on the consumption of electricity.

Electricity Sector Dedicated Income: The Province has committed to direct the income it earns from OPG and Hydro One, on a total cumulative basis, in excess of the interest cost of its investment in those companies (approximately $520 million annually, prior to the Hydro One IPO) to managing and retiring OEFC's debt and other liabilities.

OEFC's results are fully consolidated on a line-by-line basis into the Province's accounts.

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XX, 2016

Trillium Trust Act, 2014

What is the current status of the Trillium Trust?

SUGGESTED RESPONSE

- **The Trillium Trust Act, 2014, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support the Province's key infrastructure priorities, such as roads, bridges and public transit.**

- **Designated assets under the Act include the Province's shares in Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.**

- **The Act also provides for regulations to designate additional assets, such as the Seaton lands.**

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the sale of the LCBO head office lands, as well as the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support Moving Ontario Forward initiatives such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.**

BACKGROUND

Trillium Trust Act, 2014: Introduction in 2014 Budget

The 2014 Budget introduced the Trillium Trust Act, 2014, which established the Trillium Trust to provide for the dedication of net proceeds from the sale of qualifying assets to support the Province's key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014, was also established to require the Minister of Finance to maintain in the Public Accounts an account to track the receipt and disbursement of net proceeds obtained from the disposition of "qualifying assets".

Trillium Trust Act, 2014: Amendments in Budget Measures Act, 2015

The Act was amended in 2015, with a number of changes including:

1. Designation of certain named qualifying assets
    - Shares in Hydro One Limited
    - Shares in Hydro One Brampton Networks Inc.
    - LCBO head office lands
    - OPG headquarters building and attached property
    - OPG Lakeview lands and attached properties.

- The Act retains the authority of Treasury Board to designate further assets by regulation in future.
- The Seaton lands have not been named in legislation as the lands are made up of many parcels and are more complex and lengthy to describe. The Seaton lands can be named through regulations once the exact structure of a transaction or multiple transactions are known.

2. Allowing for non-cash revenue gains to be dedicated to the Trust

- The amendments provide for prescribing the amount of non-cash benefits recognized by the Crown in connection with the sale of a qualifying asset, to be credited to the Trillium Trust.
    - This allowed for the government to credit the Trust with the Province's fiscal benefit from the deferred tax benefit recognized by Hydro One.

3. Specifying the calculation of designated proceeds

- Designated proceeds are the gross revenues recognized by a ministry or public entity in connection with a sale, less book value, less any prescribed costs incurred, and/or

the value of any prescribed obligations assumed by a Ministry or public entity in disposing of the asset.

- The Act requires regulations to prescribe any costs and/or other obligations other than the book value of the qualifying asset, if necessary.

4. Changes to the nature of the spending authority in the Act

    - Previously, the amounts credited to the Trillium Trust were deemed as money received for the special purpose of infrastructure spending, under Section 7.(1) of the Financial Administration Act.

    - The amendments specify that amounts not exceeding the balance in the Trillium Trust may be paid out of the Consolidated Revenue Fund for the purposes of funding infrastructure.

5. Timing for designating assets as qualifying assets

    - To be eligible, an asset would need to be designated as a qualifying asset before the books of the Government of Ontario are closed for the fiscal year in which the asset is disposed.

6. Timing for reimbursement of expenditures

    - A reimbursement for infrastructure expenditures incurred by the Crown using the Trillium Trust must be made before the books of the Government of Ontario are closed for the fiscal year in which the expenditures are incurred.

<u>Trillium Trust Reporting</u>

The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust. The $1.35 billion reflects the net proceeds from the sale of the Province's General Motors common shares the redemption of preferred shares.

- The Province generated $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

- On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares, resulting in a fiscal gain of $1.08 billion.

- General Motors redeemed the Province's preferred shares on December 31, 2014, producing a gain of $0.02 billion.

On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.

- The designated proceeds of disposition totalled about $0.8 billion.
    - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.
    - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.
- The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
    - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
    - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.
- The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
    - In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the PWU and SEP. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
    - The gains from the share sales financed through a provincial loan will be credited to the Trillium Trust over time as the loans are repaid.

An update on the status of the Trillium Trust will be included in the 2015-16 Ontario Public Accounts.

Disbursements from the Trillium Trust towards Infrastructure

As announced in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016–17. Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.

Initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. It is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

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August 30, 2016

Broadening Ownership of Hydro One

How is the Province progressing in broadening ownership of Hydro One?

SUGGESTED RESPONSE

- **The Province continues to move forward with broadening ownership in Hydro One, to unlock value to reinvest in infrastructure through the Trillium Trust.**

- **The first phase, for about 16 per cent of the common shares in Hydro One, was completed in November 2015, with strong retail and institutional demand. The price in the initial public offering (IPO) was $20.50 per share.**

- **The Province received about $1.83 billion in gross proceeds from the IPO, before expenses and fees, and about $116 million from related share sales.**

- **On April 5, 2016, the Province announced that it had agreed to sell up to approximately 14 per cent of the common shares through a secondary offering (about 83.30 million shares) at a price of $23.65 per share.**

    - **The secondary offering raised approximately $2 billlion in gross proceeds, through a base offering that closed April 14th and an over-allotment option that closed on April 29th.**

- **Through broadening Hydro One ownership, the Province is on track to meet its target to generate:**

    - **$4 billion in net revenue gains over time that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward; and**
    - **$5 billion to reduce debt.**

- **On July 12, 2016, the Province announced an agreement in principle to sell to First Nations (FNs) in Ontario up to 2.5% of the total current common shares outstanding of Hydro One Limited (approximately 15 million shares) at a price of $18 per share.**

    - **All 133 FNs in Ontario are invited to participate in the transaction and the number of shares sold will be proportional to the level of participation, with a minimum 80% participation required by closing (Dec. 2017).**

    - **The purchase would be financed with a 25 year loan from the Province of up to approximately $268 million, depending on the level of First Nations participation.**

- **The Province would also provide seed capital to a new First Nation investment fund of up to $45 million in cash, depending on the level of First Nation participation, over the initial three years.**

- **By law, the Province is restricted from being able to sell down its interest to holding less than 40 per cent of the voting securities in Hydro One, following the IPO and subsequent share sales.**

    - **The rest of the shares in Hydro One would be broadly held, with no other shareholder or group of shareholders acting jointly together allowed to hold more than 10 per cent of the common shares.**

- **The ability to set Hydro One's transmission and distribution rates will continue to be at arm's length from Hydro One management, with rates set by the independent regulator, the Ontario Energy Board (OEB).**

    - **The government has also passed legislation that strengthens the OEB to further enhance its ability to protect electricity ratepayers with respect to cost, consumer protection and service reliability.**

<u>IF ASKED ABOUT ASSET OPTIMIZATION / TRILLIUM TRUST:</u>

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17. Based on planned expenditures in 2016-17, the Trillium Trust would support Moving Ontario Forward initiatives, such as**

    - **Regional Express Rail (RER),**
    - **Hurontario light rail transit (LRT), and**
    - **Ontario Community Infrastructure Fund.**

IF ASKED ABOUT USING PROCEEDS TO PAY DOWN DEBT:

- **The government is committed to using proceeds related to the book value of shares sold from broadening ownership in Hydro One to pay down electricity sector debt.**

- **These proceeds, along with a pre-IPO special dividend of $800 million which has been paid by the Province to the Ontario Electricity Financial Corporation (OEFC), will allow the Province to pay down its debt and other payables to OEFC.**

- **These amounts, and an additional one-time PILs payment of about $200 million to OEFC, will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay-down.**

IF ASKED ABOUT THE 2015 IPO DEFERRED TAX ASSET/BENEFIT:

- **The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.**
    - **Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.**

    - **The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.**

BACKGROUND

Fiscal Impacts

- Qualitatively, the key fiscal impacts on the Province from an IPO are composed of the following components:
    - The gain on sale of the portion of shares sold – that is the gross proceeds less expenses/fees and less the book value of the shares sold.
    - Any one-time impact of a deferred tax asset benefit to Hydro One's net income that would be consolidated into Public Accounts based on the Province's ownership level in Hydro One.
    - A reduction in electricity payments-in-lieu of taxes, as Hydro One, following the IPO, has exited the PILs system and become taxable under the federal Income Tax Act and the Provincial Taxation Act.
    - Following the IPO, the Province is continuing to consolidate the net income of Hydro One into its revenues in Public Accounts, based on its proportionate share of ownership.

- The fiscal impacts on the Province from a gain on sale of the shares in a secondary offering, or other sales, are similar to the impacts from the IPO. However, there is no one-time impact of a deferred tax asset benefit or incremental reduction in electricity payments-in-lieu of taxes.

- The impact of broadening the ownership of Hydro One is expected to result in a more efficiently run and better performing company. Under new management, a group of diverse and accomplished leaders, there will be a renewed focus on customer service excellence, finding efficiencies and improved reliability. The Province expects to receive financial benefits from a strong and growing company.

IPO Proceeds / Net Revenue Gains

- The Province received $1.83 billion in gross proceeds as a result of the IPO.
    - This is before deducting any expenses or fees from the offering.

- In addition to the gross proceeds amount from the IPO, the Province also sold about $116 million in shares to seperate trusts established by the Power Workers Union (PWU) and the Society of Energy Professionals (SEP).

- On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.
    - The designated proceeds of disposition totalled about $0.8 billion.
        - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.

        - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.

    - The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
        - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
        - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.

    - The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
        - Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
        - The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

- The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

    - While this would reduce OEFC's gross debt, it would not reduce stranded debt, as the Province's payables to OEFC that would be reduced are currently assets on OEFC's books. Both OEFC assets and debt would be reduced by the same amount.

- As part of this IPO process, the Province has received approximately $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, which has now been paid by the Province to OEFC, and about $200 million in additional payments in lieu of taxes to OEFC.

    - Since the Province reflects in revenue its net income from government business enterprises, dividends paid by the Province's electricity government business enterprises are not recorded as revenue and do not provide a direct fiscal gain to the Province.

<u>Secondary Offering</u>

- The secondary offering was a "firm commitment offering", where the underwriters committed to buy the entire offering from the Province at an agreed price before the underwriters undertake any public sales or marketing of the offered shares.

- A "firm commitment offering" eliminates marketing risk to the Province and transfers it completely to the underwriters as the underwriters buy the entire offering from the Province at a predetermined price.

- Once the transaction closes, the underwriters would be in a position to then sell to retail and institutional investors.

- RBC and Scotiabank were the co-lead underwriters for the secondary offering.

    - These two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

- The secondary raised approximately $2 billion in total gross proceeds, with approximately $1.7 billion coming from the initial base offering and $0.3 billion from the over-allotment option.
    - As part of the secondary offering, OPG purchased 9 million shares in connection with annual share award obligations for its employees in collective agreements reached with the PWU and SEP.
    - OPG independently made the decision to purchase Hydro One common shares in the offering and does not have any agreement, arrangement or understanding with the Province with respect to Hydro One common shares or the voting of those shares.

- Underwriting fees for this offering were 1% for institutional investors and 3% for retail investors, subject to an overall cap of 2%, totalling approximately $39.4 million with the over-allotment option exercised in full.
    - On a net basis (after fees), the Province raised approximately $1.93 billion.

- The price discount offered by the underwriters represented an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th, 2016 ($23.65 vs $24.16).

<u>Hydro One Dividend Policy</u>

- Hydro One's IPO Prospectus noted that Hydro One anticipated an annual dividend amount of approximately $500 million in the aggregate initially, based on a target payout ratio of 70 percent to 80 percent of net income

- In its 2015 Annual Financial Statements, Hydro One declared a dividend of 34 cents per common share, comprised of 13 cents for the post IPO fourth quarter period of November 5 through December 31 2015, plus 21 cents for the full first quarter ending March 31, 2016.

    - The dividend was paid on March 31, 2016. For the Province, that would be about $170M.

- On May 5, 2016, Hydro One's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on June 30, 2016 (to shareholders of record on June 14, 2016).

Departure Tax/Capital Contribution

- In connection with the IPO, Hydro One's exemption from tax under the federal Income Tax Act and the Taxation Act (Ontario) ceased to apply and Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status for proceeds equal to the estimated fair market value of those assets at that time.

- As a result of this deemed disposition, Hydro One was liable to make a "departure tax" payment in lieu of tax under the Electricity Act in respect of the income and capital gains.

- Before the IPO, the Province, as shareholder, made a capital contribution into Hydro One and received new common shares of Hydro One Limited for a total of $2.6 billion. This provided Hydro One with funds that it used to pay the "departure tax" to OEFC.

- This capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One.

- On November 4, 2015, Hydro One paid OEFC the $2.6 billion "departure tax".

    - This transaction is fiscally neutral as the Province consolidates both OEFC's revenue and Hydro One's net income on its books.

    - OEFC (and the Province upon consolidation) will record a higher payment in lieu of tax revenue due to the departure tax, but this amount will be offset by the reduction in Hydro One's net income as a result of the payment.

Initiatives to Support Broadening Hydro One Ownership

- As part of the IPO process, and to support Hydro One's transition to being broadly held, the government agreed with the recommendations of the Council that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly traded, rate-regulated entities.

- To achieve this, the Province has passed several legislative amendments, including legislation that requires that Hydro One retain the company's headquarters and grid control centre in Ontario.

    - In addition, the legislation provides for substantially all of Hydro One's senior executives with strategic decision-making authority to be located and carry out those functions in the province.

- The government has also put in place a governance agreement and registration rights agreement with Hydro One to serve both the public interest and investors' interests. The agreements clarify the Province's role as investor, including the process in which the Province nominates 40 per cent of the Board of Directors and the Province's rights related to future share sales by the Province or Hydro One.

- The Province appointed a new Board of Directors for Hydro One on July 17, 2015, (with the exception of Mayo Schmidt, who replaced Carmine Marcello) which includes:

    - David Denison (returning Director and Chair), former President and CEO of the Canada Pension Plan Investment Board;
    - Ian Bourne, Chair of Ballard Power Systems Inc.;
    - Charles Brindamour, CEO of Intact Financial Corporation;
    - Marc Caira, Vice Chairman of the Board of Directors of Restaurant Brands International Inc.;
    - Christie Clark, former CEO and Senior Partner of PricewaterhouseCoopers LLP;
    - George Cooke, (returning Director), Chair of the Board of Directors of the OMERS Administration Corporation;
    - M. Marianne Harris, former Managing Director at Bank of America Merrill Lynch Canada;
    - Jim Hinds, former Chair of the Independent Electricity System Operator (IESO) Board;
    - Kathryn Jackson, Senior Vice President and Chief Technology Officer of RTI International Metals, Inc.;
    - Roberta Jamieson, President and CEO of Indspire, former Board Member of Ontario Power Generation, and former Ombudsman of Ontario;
    - Frances Lankin, a member of the Board of Directors with the Ontario Lottery and Gaming Corporation; former President and CEO of United Way Toronto; and former member of the Premier 's Advisory Council on Government Assets;
    - Mayo Schmidt, President and CEO of Hydro One Limited.;
    - Philip Orsino, former President and CEO of JELD-WEN Inc.
    - Jane Peverett, former President and CEO of British Columbia Transmission Corporation; and
    - Gale Rubenstein, (returning Director), Partner at the law firm Goodmans LLP.

- On June 23, 2015, Michael Vels was hired as the new Chief Financial Officer and on August 20, 2015, Mayo Schmitt was hired as the new Chief Executive Officer.

- On February 3, 2016, Hydro One announced the first senior executive change since the IPO as Sandy Struthers, Chief Operating Officer and Executive Vice President left the company.

- On Aug. 22, 2016, Hydro One announced the appointment of Greg Kiraly to the role of Chief Operating Officer, effective September 12, 2016.

<u>Loans to PWU/SEP Trusts</u>

- The Asset Council’s Phase 1 report highlighted the need for a dialogue with management and labour unions to address cost implications of labour and pension agreements at Hydro One.

- In the Council’s Phase 2 report the Council recommended that the Province, Hydro One management, and unions finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation.

- The Power Workers Union (PWU) and the Society of Energy Professionals (SEP) collective agreements provide for net zero increases and substantial movement in pension sustainability, aligning with the recommendations contained in the Leech report.

- The government extended a $75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and $36 million in loans to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One.

- The loans are to the seperate trusts, not to individual employees. These arrangements allow the unions to invest in high quality jobs for Ontarians, which the Province believes is consistent with the purpose of the IPO and will better align the interests of the union members with those of investors in Hydro One.

- The unions were also permitted to purchase some additional common shares from the Province with their own resources ($5 million in shares to PWU and $3 million in shares to SEP).

Executive Compensation

- For comparable companies, the pay for Hydro One senior management will actually be set at the medium-to-low range. And a large part of that compensation will be 'at risk' if they fail to perform.

- This pay is in line with similar privately-held energy companies in Canada. The CEO of Fortis Inc. received $5M in compensation, and the CEO of ATCO Ltd. received a salary similar to that of Hydro One's new CEO.

First Nations

- The government has committed to a formal Political Accord with First Nations (FNs), and is dedicated to working collaboratively on a host of issues, including energy.

- On July 12, 2016 the Province announced an agreement in principle to sell to the FNs in Ontario, up to approximately 15 million shares of Hydro One Limited (2.5% of the total current common shares outstanding).

- All 133 FNs in Ontario are invited to participated in the transaction and a minimum 80% threshold of FN participation by the end of 2017 is required for the transaction to close. Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement.

- If the agreement is ratified, the Province of Ontario would sell shares of Hydro One to an investment vehicle owned by the FNs at a price of $18 per share (which is above the Province's book value for the shares).

- This purchase would be financed with a 25-year loan from the Province of up to approximately $268 million, depending on the level of FN participation. The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points.

- Moreoever, the Province would also provide seed capital to a new FN investment fund of up to $45 million in cash over the initial three years, depending on the level of FN participation in the transaction.

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Strategic Investment and Finance Branch, Corporate and Electricity Finance Division
Date Prepared: August 30, 2016
Approved by: Ronald Kwan, ADM, Corporate and Electricity Finance Division
August 30, 2016

Standing Committee on Public Accounts

OCTOBER 4, 2016
BRIEFING BINDER

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Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 800

Check against delivery

Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also am in agreement with the Auditor General's recommendations from the 2015 report relating to the importance of producing high-quality financial reports that meet the needs of the public and legislature.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government continues to confirm its commitment to eliminate the deficit by 2017–18.

This includes the most recent provincial Budget.

It should be noted that this commitment builds on past success. Successive budgets and public accounts have continually demonstrated that the province has beaten its annual deficit targets year after year

~~Ontario's accumulated deficit is more than $25 billion lower than it would have been without the strong fiscal management applied to exceed these targets~~

The government is achieving and beating these targets by managing program spending growth and by making strategically important financial decisions.

TRecently, , the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote:

"The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels."

End quote.

Moody's outlook on the Province was further confirmed in a later report. It said I quote:

"Ontario's debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province's improving fiscal position and conservative debt management policy."

End quote.

The report also speaks positively to the importance of the Province's infrastructure spending at this time of low interest rates, as have a number of other external observers.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in the 2015 Budget, the Province committed to unlocking the value from other assets in order to contribute approximately $5.7 billion for infrastructure projects.

.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects that are part of the largest investment in public infrastructure in the province's history.

The government has already filed regulations crediting the Trillium Trust with net proceeds from the initial stages of its asset optimization plan

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, its asset sales, , our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

[Conclusion]

Of course, we can do more. And we will.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

Before closing, I would like to also take the opportunity to thank the staff from the Ministry of Finance who have helped prepare for this session today, many of whom are in attendance behind me.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority, to discuss the management of the province's debt.

Thank you….Gadi….

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Fw: MM&P: Public Accounts Communications Products
Date: Sunday, October 02, 2016 11:07:17 AM
Attachments: PA15_MediaProductsNoOpinionwReg0110 (BS post meeting #3).docx

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Original Message
From: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
Sent: Sunday, October 2, 2016 7:25 AM
To: Greg Orencsak (MOF); Scott Thompson (CAB); Karen Hughes (MGS); Veinot, Cindy (TBS); Nadine Petsche (MOF); Gadi Mayman; Patrick Laughton (MOF); David McLean (MOF); Mike Jancik (OPO); Ghiassi, Ali (MOF); Steve Orsini (MOF); Lynn Betzner (CAB); Lauren Tedesco (EDU); William Bromm (CAB); Andrew Bevan (OPO); Karim Bardeesy (OPO); Michael Maddock (ENE); Rebecca MacKenzie (GHLO); McEachern, Gillian (OPO); Bill Killorn (OPO); Jacob Mksyartinian (MOHLTC); Ostergard, Matt (TBS); Jason Pichelli (MOF); Alicia Farrow (CAB); Kelsey Ingram (OPO)
Subject: MM&P: Public Accounts Communications Products

Please find attached the communications products for the MM&P meeting this afternoon.

Kyle

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Saturday, October 01, 2016

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Current holding messaging for the Minister

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts. They're then reviewed by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around some complex accounting issues.

- Earlier today I met with Auditor General to discuss the importance of resolving this issue with officials and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve these issues.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In the spirit, as part of the 2015-16 Annual Report and Consolidated Financial Statements we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when Public Accounts are released.

Key messages – post release

- The government has released its 2015-16 Annual Report and Consolidated Financial Statements to ensure transparency with respect to province's financial position.

- To align with Auditor General we have used our statutory authority to regulate that accounting treatment for the 2015/16 financial statements.

- The government's regulation addresses the issue in a manner that is consistent with the fiscal outcome proposed by the Auditor General with respect to this accounting item.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Our accountants did not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified audit opinions, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. To do so, the government regulated the treatment of the pension assets for one year, 2015-16.

- This is a complex accounting issue. However we remain optimistic that by studying the issue further, we will be able to reach an agreement.

News Release

Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget by 2017-18

News

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, and $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection. The province's deficit for 2015-16 is $5 billion.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18 while remaining balanced in 2018-19.

The government is beating its deficit targets because Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was faster than that of the United States and the G7.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the complex treatment of pension assets.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government is now releasing its financial statements to ensure openness and transparency with respect to province's financial position. The government has regulated the treatment of pension assets for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will

be part of this national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences.

Ontario is continuing to make investments that create jobs, expand opportunities and enhance prosperity for all Ontarians while investing in people's talents and skills, building new public infrastructure like roads and transit, and creating a dynamic, innovative environment where business thrives.

QUOTE

“The Annual Report and Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance by 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“The government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

- Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- The 2015-16 Financial Statements compare Ontario’s actual performance to what was planned in the 2015 Budget.

- The Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the 2015-16 Financial Statement [update hyperlink]
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Newsroom Backgrounder

Improving Outcomes for Ontarians

The 2015-16 Annual Report and Consolidated Financial Statements show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, and $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

Accounting Standards

Treasury Board Secretariat prepares the financial statements of Ontario in accordance with the accounting principles and standards for governments recommended by the Public Sector Accounting Board.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables.
- Creating a whiteboard video that explains Annual Report and Consolidated Financial Statements in simple terms, and the important role it plays in demonstrating financial transparency and accountability.
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing 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 totalling up to at least $16.50 per hour by April 1, 2016.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance and expand access to high quality college and university education.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province’s history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to

invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would make the tuition portion of the average postsecondary experience free. These changes will start in the 2017-18 academic year.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Fact Sheet **(optional for media kit)**

The Release of Ontario's 2015-16 Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

- In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the treatment of a complex accounting issue – the treatment of pension assets – that is subject to a range of interpretations.

- The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

- The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

- During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

- The effect of the legislation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province.

- Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

- The Auditor General has not rendered an audit opinion on the province's financial statements for 2015-16. However the government is releasing these financial statements to ensure openness and transparency with respect to province's financial position. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances.

- The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies practices, has acknowledged the consistent basis used by Ontario for its Budget, Estimates and Public Accounts as a best practice to supporting transparency and accountability.

Top Media Qs&As

Releasing Unaudited Financial Statements

1. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to a complex accounting issue – the treatment of pension assets.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. On what exactly do you disagree with the Auditor?

This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to a complex accounting issue – the treatment of pension assets.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

3. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

Given these differences of opinion, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

4. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

5. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

6. What is the government trying to hide by releasing unaudited books?

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. We believe that our Financial Statements reflect the fiscal outcome proposed by the auditor.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18, and remaining balanced in 2018-19.

The government is now including five-year trends in its Public Accounts. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

7. **Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?**

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the auditor.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

8. **Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?**

TBC Legal

9. **Has this ever happened before in Ontario? Anywhere else in Canada?**

TBC OPCD

10. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

In the course of developing its 2015-16 financial statements, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to the Auditor General's interpretation. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the auditor.

This is a complex and technical accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review it. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

11. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to expedite the release of the 2015-16 Public Accounts.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Public Service Pension Plan is nearly fully funded at 98%.

Both plans exceeded their target long-term rates of return in 2015. The Public Service Pension Plan achieved a 6.14% return and the OPSEU Pension Plan achieved an 8.0% return.

13. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

TBC OPCD

14. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

15. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

We have been working with the Office of the Auditor General to try to come to an agreement on this issue.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

16. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

17. Is the government still committed to balancing the budget by 2017-18?

Yes. The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

18. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend

our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18, and remaining balanced in 2018-19.

19. How will this affect the province's debt? Does this mean the province owes more money?

No. Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

20. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

21. The Auditor General has recommended that the government work toward implementing a long-term debt reduction plan with the target of reducing its

net-debt-to-GDP ratio to pre-recession levels of 27% This year the ratio has risen again. What is the government doing to lower this ratio?

The government continues to maintain a target of returning 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 more than $137 billion in capital over the next 10 years. Most of these capital investments are amortized over a period of time corresponding to the useful life of these assets. Even with a balanced budget, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt.

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, both of which will help achieve the 27 per cent target.

22. What is the difference between "Public Accounts" and "Financial Statements"?

Answer below needs fact check by OPCD

Our financial statements include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as:

- a report by the Auditor General containing an audit opinion
- supplementary financial information in three volumes

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

23. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

24. How different will the AG's numbers be?

TBC OPCD

25. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the house there will be delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through a complex accounting issue related to pension assets.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

26. Clearly the government is in a spat with the AG – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the AG?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the AG's office to resolve this complex accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

27. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our treatment of pension assets. We believe that this reflects the fiscal outcome proposed by the auditor.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

28. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

TBC OPCD

29. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial results provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

30. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

31. Why didn't the AG issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

Our officials continue to work with the AG's office to resolve this complex accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

TBC Legal on question of whether it is legal for AG to not issue an opinion

32. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

33. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this complex accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

34. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

35. According to your numbers the deficit was down $5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

36. Does the fact that your deficit is $5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

37. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

38. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

39. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Ontario's fiscal projections also incorporate prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those from changes in Ontario economic performance or the impact of natural disasters.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

40. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

41. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

42. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

43. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

44. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

45. Disagreement with officers of the legislature seems to be a recurring theme – at least with the AG – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

46. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

47. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

48. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

TBC OPCD

Hydro One

49. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

50. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

51. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

52. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

53. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

54. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

55. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

56. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

57. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

58. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $3.8 billion, a $5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

59. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $3.8 billion, down $5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

60. How much did government spend in 2015-16?

TBC OPCD

61. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $132.2 billion, $0.3 billion higher than the 2015 Budget plan. Program spending was $121.2 billion, up by $0.7 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

Total program spending was $757 million higher than the Budget, resulting in actual program expense of $121.2 billion. The increases were attributable to:

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

62. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2015–16, and has been set at $1.2 billion in each of 2016–17 and 2017–18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

63. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

64. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

65. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $3.5 billion would not have been affected.

Budget Surplus and Revenue Increase

66. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

67. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

68. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

69. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

70. Why did Ontario's net debt increase by $10.3 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of $10.3 billion in net debt is primarily due to the deficit and investments in capital assets.

71. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

72. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

73. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

74. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

75. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

76. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

77. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

78. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

79. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

80. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

81. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

82. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

83. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

84. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to

about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

85. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

86. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

87. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

88. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will

benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the PanAm Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

89. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of Financial Statements

Earlier today I met with Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards. These standards relate to a complex accounting issue – the treatment of jointly-sponsored pension plans.

In preparing the 2015-16 Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite our best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances.

Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18, and remaining balanced in 2018-19.

It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well-funded.

Based on our respective positions at this time, we believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Prior to making this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

Our officials will continue to work with the Auditor General's office to resolve this complex accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – on the fiscal outlook (TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

Based on the government's plan, net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18 – supporting greater sustainability in the Province's management of its debt.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Ontario.ca Landing Page

Ontario's 2015-16 Annual Report and Consolidated Financial Statements

The Province's Annual Report and Consolidated Financial Statements look back at the government's revenues and expenses. They compare the province's financial performance with the goals outlined in the Budget.

Learn more about the Ontario Budget cycle

Overview

The documents present the government's financial statements and provides a picture of how finances were managed over the last fiscal year (April 1 to March 31).

They are made up of:

- an annual report
- a financial statement, discussion and analysis
- consolidated financial statements
- three supporting volumes

As part of our Open Government initiative, you can find additional tools, features and tables to make the government's financial information easier to access, use and understand.

Annual report

The annual report is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

Read the annual report (2015-16)

Consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16)

Volume 1: ministry statements and schedules

Volume 1 contains ministry statements, detailed schedules of debt and other items. This volume details where government revenue comes from, including taxes, non-tax revenue and income from enterprises like the LCBO), alongside the expenses of ministries.

Read Volume 1 (2015-16)

Data Visualization (same as current on site, but with updated data)

This graphic visualizes ministry spending information in Volume 1 of the Public Accounts for 2015-16, not including financial reimbursements or recoveries. Financial reimbursements or recoveries include internal chargebacks between ministries for shared services, as well as reimbursements from external sources for the delivery of services. As a result, some amounts may differ from these documents.

Select a ministry to learn more about their spending. You can also download the Public Accounts data to create your own visualization.

Get Volume 1 data

Volume 2: financial statements of government organizations and business enterprises

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. These organizations and enterprises include agencies like Metrolinx and Hydro One and organizations like the Workplace Safety and Insurance Board.

Read Volume 2 (2015-16)

Volume 3: detailed schedules of payments

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Read Volume 3 (2015-16)

Volume 2

Volume 2 contains the individual financial statements of government organizations, business enterprises and other miscellaneous financial statements. These organizations and enterprises include agencies like Metrolinx and Hydro One and organizations like the Workplace Safety and Insurance Board.

Volume 2 PDFs

- Read Volume 2a: Financial Statements of Government Organizations (2015-16)
- Read Volume 2b: Financial Statements of Government Organizations (2015-16)
- Read Volume 2c: Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements (2015-16)

Government Organizations Summary

<!---Insert DATA TABLE from “PA vol2 government organizations MMDDYYYY.csv” here --->

Government Business Enterprises Summary

<!---Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” here --->

Trusts Summary

<!---Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” here >

Volume 3

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Download the PDF for Volume 3: Detailed Schedules of Payments

Detailed Schedules of Payments

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From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Fw: PA
Date: Tuesday, September 27, 2016 7:20:18 AM

Thoughts?

Original Message
From: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Sent: Tuesday, September 27, 2016 7:19 AM
To: Scott Thompson (CAB); Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF)
Subject: Re: PA

I agree on the deficit, I'm still a little unsure on the treatment of net debt. Do we back out the full 10.6, just the 9.1 opening adjustment and not the 1.5 that goes into the 15-16 deficit, or do we leave the full 10.6 in? I suppose it would depend on what the reg says about whether the 15-16 PA amounts are permanent, or that they would be reversed going forward if the process determines that this interpretation is incorrect, and we then proceed with the 16-17 and 17-18 numbers as if they will be backed out.

Original Message
From: Thompson, Scott (MOF)
Sent: Tuesday, September 27, 2016 6:50 AM
To: Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
Subject: Re: PA

Am looping in Gadi and Tim to this discussion in case they have an alternate view. My understanding has been that if we are clear in the regulation that this treatment is for the fy 15-16 only and that there is a process underway to develop the treatment for future years, then we can continue the course we were already on for FES and Budget for 16-17 year and beyond. It may be difficult to explain, but I think we have a solid argument on deficit numbers. Net debt may be more difficult to explain because we will have already added the 10.6 bn in for 15-16 and we'll have to back it out of net debt for FES.
Thanks
Scott

Sent from my iPad

> On Sep 27, 2016, at 12:02 AM, Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca> wrote:
>
> Scott, Greg,
>
> A point of clarification prior to tomorrow morning's meeting with Premier. Should the government agree to regulated accounting pursuant to the AG's interpretation for a one year period (ie 15-16) resulting in a $5B deficit for the last fiscal year, what is its reporting obligations in the FES for 16-17 through to 18-19?
>
> Ali Ghiassi
> Chief of Staff
> Minister of Finance
> 416.948.5409
>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Fw: PA
Date: Tuesday, September 27, 2016 7:52:46 AM

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, September 27, 2016 7:44 AM
To: Scott Thompson (CAB); Gadi Mayman; Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO)
Subject: Re: PA

Hey everyone - I don't have anything to add, other than to affirm what Scott said, that as long as the regulation is clear it's only for one year and there's a review underway to determine the impact on future years, we can stick with the budget plan accounting framework for now.

The rest is issues management (including I think Gadi's issue on net debt) which would need to be dealt with through a series of footnotes (as detailed expense information, including for years prior to 16-17 is also published explicitly in FES, including pension expense for tpp and pspp) as well as narrative , comms products and Q's and A's.

Tim

Original Message
From: Thompson, Scott (MOF)
Sent: Tuesday, September 27, 2016 7:32 AM
To: Mayman, Gadi (OFA); Ghiassi, Ali (MOF)
Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
Subject: RE: PA

I think the reg and/or the comms materials would have to make clear that the 15-16 PA amounts are not permanent, that they are subject to adjustment following the review that will be launched. The 'legislated' version of the PA (Chart 10) increases the debt every year from 2011-12 to 15-16, with the increased amounts falling into the 'other types of liabilities' section. By 2015-16 the difference in the Debt between non-legislated and legislated options is the $10.6 bn that we've been discussing

-----Original Message-----
From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
Sent: September-27-16 7:19 AM
To: Thompson, Scott (MOF); Ghiassi, Ali (MOF)
Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
Subject: Re: PA

I agree on the deficit, I'm still a little unsure on the treatment of net debt. Do we back out the full 10.6, just the 9.1 opening adjustment and not the 1.5 that goes into the 15-16 deficit, or do we leave the full 10.6 in? I suppose it would depend on what the reg says about whether the 15-16 PA amounts are permanent, or that they would be reversed going forward if the process determines that this interpretation is incorrect, and we then proceed with the 16-17 and 17-18 numbers as if they will be backed out.

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From: Thompson, Scott (MOF)

Sent: Tuesday, September 27, 2016 6:50 AM
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Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
Subject: Re: PA

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From:	Laughton, Patrick (TBS)
To:	Ronald Jaikaran (MOF); Alana Anderson (MOF)
Cc:	Birks, Ryan (MOF); Christina Zhang; Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject:	Fw: Pension Extract
Date:	Saturday, October 29, 2016 11:23:22 AM
Attachments:	image004.png image003.png

This is very helpful - thank you.

Nermina and I will connect with folks on Monday to organize the meet.

Hope everyone is having a good weekend.

P.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

· Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.

o This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

· Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected."

· Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

· Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.

· Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

Wondering if, as part of landing today's distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management) that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

· Tara can help locate all the references in the fiscal chapter

· Ken K can help locate all the references in the debt chapter

· Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]


Office of the Budget
MINISTRY of FINANCE


Office of the Budget
MINISTRY of FINANCE

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: New Brunswick adopts new pension accounting approach (CIBC Capital Markets)
Date:	Tuesday, October 04, 2016 12:21:33 AM
Attachments:	New Brunswick adopts new pension accounting approach (Oct 3, 2016).pdf ATT00001.htm

---

I know it's a complex subject, but are NB and their AG going in the opposite direction of where our AG is?

Begin forwarded message:

From: CIBC CM Macro Strategy <Mailbox.CIBCMacroStrategy@cibc.com>
Date: October 3, 2016 at 10:57:28 AM EDT
To: Undisclosed recipients:;
Subject: New Brunswick adopts new pension accounting approach (CIBC Capital Markets)

CIBC Capital Markets
Macro Strategy Research

New Brunswick adopts new pension accounting approach (October 3, 2016)

For Fiscal 2015-16, New Brunswick received an unqualified opinion from the auditor general. This is a reversal from the previous year when the province was flagged for their 'defined contribution accounting' approach. New Brunswick transitioned its four largest defined benefit pension plans to a shared risk model (i.e. target benefit plans) in order to improve the plans' long-term "sustainability, affordability and security while ensuring inter-generational fairness." The plans represented about 95% of its pension liabilities. New Brunswick's Auditor General concluded, however, that the "financial statements do not reflect the risk inherent in the design of a Shared Risk Pension Plan." In the end, the Auditor General concluded that there was not enough analysis done to justify a change in accounting treatment from defined benefit to defined contribution, whereby the province could de-recognize its obligations in the financial statements. It is the first time in 17 years that New Brunswick has received a qualified opinion.

Effective April 1, 2015, the Province retroactively changed its accounting policy for its Target Benefit Pension Plans. The Province previously accounted for these plans as defined contribution plans, and is now applying defined benefit and joint defined benefit accounting treatment. As at 31 March 2016, the value of the Province's share of accrued benefits for all target benefit pension plans exceeded the value of the plan assets resulting in an actuarial benefit liability of $374.2mln ($-113.7mln 2015). This change in the accounting policy has caused the Province's 2015 consolidated financial statements to be restated by an increase of $221.3mln in closing net debt, accumulated deficit and pension liability, and a decrease of $3.4mln in pension expense. Opening net debt and accumulated deficit as at April 1, 2014, also increased by $224.7mln. We consider this modest as it only represents an increase of 1.7% to restated beginning of year net debt for 2016 (1.8% for 2015).

We consider this to be a positive development in New Brunswick's accounting practices as the province is no longer derecognizing its pension obligations. The Auditor general feels the same way, thus, restoring the unqualified opinion for the province.

For more information on Canadian government sector accounting practices, please refer to our Macro Strategy research note "Accounting for Government Transfers, August 8, 2016" by clicking here[cibcmacro.com]

Maria Berlettano, CFA
416 594-8041
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www.cibcmacro.com*[cibcmacro.com]*

Tom Bognar, CFA
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New Brunswick adopts new pension accounting approach (October 3, 2016)

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From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: PA
Date:	Tuesday, September 27, 2016 7:43:02 AM

Begin forwarded message:

> **From:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Date:** September 27, 2016 at 7:42:02 AM EDT
> **To:** "Greg Orencsak (MOF)" <Greg.Orencsak@ontario.ca>
> **Cc:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Mike Jancik (OPO)" <Mike.Jancik@ontario.ca>, "Tim Schuurman (MOF)" <Tim.Schuurman@ontario.ca>
> **Subject: Re: PA**
>
> I guess we'd have to make an assumption in the FES on net debt, and explain what assumption we are making. If we assume it all gets reversed, we'll show just a 1.4 or 1.5% spike in net debt to GDP for 15-16, with it dropping back in 16-17. If we assume that while we'd go back to the accounting treatment we've used for the past 15 years going forward, but leave the PA reported opening adjustment and 15-16 deficit untouched going forward, the 1.4 or 1.5% increase would permanently increase the level of net debt to GDP going forward, although we'd, depending on deficit and capital spending amounts going forward, still be able to show it levelling off and starting to drop, albeit from a higher level.
>
> I hate to say this, but we might need to show both lines, because if we don't, someone else will do it for us. The reason I hate the idea is twofold: the concept of two sets of books, and also because then it will encourage people to ask questions about a third line: what would net debt and the deficit look like if the process we are undertaking determines that the regulated treatment is correct?
>
> In any case, we'd have to make it clear that none of these adjustments affect the Province's borrowing program, as they are not cash adjustments.
>
> On Sep 27, 2016, at 7:24 AM, Orencsak, Greg (TBS) <Greg.Orencsak@ontario.ca> wrote:
>
> > Gadi, the regulation would only prescribe 15-16, so that's the only year it speaks to. No reference in reg to process, as that's not a regulatory matter.
> >
> > Greg

On Sep 27, 2016, at 7:19 AM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

I agree on the deficit, I'm still a little unsure on the treatment of net debt. Do we back out the full 10.6, just the 9.1 opening adjustment and not the 1.5 that goes into the 15-16 deficit, or do we leave the full 10.6 in? I suppose it would depend on what the reg says about whether the 15-16 PA amounts are permanent, or that they would be reversed going forward if the process determines that this interpretation is incorrect, and we then proceed with the 16-17 and 17-18 numbers as if they will be backed out.

Original Message

From: Thompson, Scott (MOF)

Sent: Tuesday, September 27, 2016 6:50 AM

To: Ghiassi, Ali (MOF)

Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman

Subject: Re: PA

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Thanks

Scott

Sent from my iPad

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From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Fwd: PA
Date: Tuesday, September 27, 2016 7:43:21 AM

Begin forwarded message:

> **From:** "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
> **Date:** September 27, 2016 at 7:32:17 AM EDT
> **To:** "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>
> **Cc:** "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Subject: RE: PA**
>
> I think the reg and/or the comms materials would have to make clear that the 15-16 PA amounts are not permanent, that they are subject to adjustment following the review that will be launched. The 'legislated' version of the PA (Chart 10) increases the debt every year from 2011-12 to 15-16, with the increased amounts falling into the 'other types of liabilities' section. By 2015-16 the difference in the Debt between non-legislated and legislated options is the $10.6 bn that we've been discussing
>
> -----Original Message-----
> From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
> Sent: September-27-16 7:19 AM
> To: Thompson, Scott (MOF); Ghiassi, Ali (MOF)
> Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
> Subject: Re: PA
>
> I agree on the deficit, I'm still a little unsure on the treatment of net debt. Do we back out the full 10.6, just the 9.1 opening adjustment and not the 1.5 that goes into the 15-16 deficit, or do we leave the full 10.6 in? I suppose it would depend on what the reg says about whether the 15-16 PA amounts are permanent, or that they would be reversed going forward if the process determines that this interpretation is incorrect, and we then proceed with the 16-17 and 17-18 numbers as if they will be backed out.
>
> Original Message
> From: Thompson, Scott (MOF)
> Sent: Tuesday, September 27, 2016 6:50 AM
> To: Ghiassi, Ali (MOF)
> Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman

Subject: Re: PA

Am looping in Gadi and Tim to this discussion in case they have an alternate view. My understanding has been that if we are clear in the regulation that this treatment is for the fy 15-16 only and that there is a process underway to develop the treatment for future years, then we can continue the course we were already on for FES and Budget for 16-17 year and beyond. It may be difficult to explain, but I think we have a solid argument on deficit numbers. Net debt may be more difficult to explain because we will have already added the 10.6 bn in for 15-16 and we'll have to back it out of net debt for FES.
Thanks
Scott

Sent from my iPad

> On Sep 27, 2016, at 12:02 AM, Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca> wrote:
>
> Scott, Greg,
>
> A point of clarification prior to tomorrow morning's meeting with Premier. Should the government agree to regulated accounting pursuant to the AG's interpretation for a one year period (ie 15-16) resulting in a $5B deficit for the last fiscal year, what is its reporting obligations in the FES for 16-17 through to 18-19?
>
> Ali Ghiassi
>
> Chief of Staff
>
> Minister of Finance
>
> 416.948.5409

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message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Release of 2015-16 Annual Report and Consolidated Financial Statements - Revised Communications Materials
Date:	Monday, October 03, 2016 12:24:17 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 12 10 am).docx ATT00001.htm

---

Begin forwarded message:

From: "DiMuzio, Sofie (TBS)" <Sofie.DiMuzio@ontario.ca>
Date: October 3, 2016 at 12:17:03 AM EDT
To: "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>, "Tedesco, Lauren (TBS)" <Lauren.Tedesco@ontario.ca>, "Ingram, Kelsey (MOF)" <Kelsey.Ingram@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, "Bardeesy, Karim (OPO)" <Karim.Bardeesy@ontario.ca>, "Maddock, Michael (CAB)" <Michael.Maddock@ontario.ca>, "MacKenzie, Rebecca (OPO)" <Rebecca.MacKenzie@ontario.ca>, "McEachern, Gillian (OPO)" <Gillian.McEachern@ontario.ca>, "Killorn, Bill (OPO)" <Bill.Killorn@ontario.ca>, "Mksyartinian, Jacob (OPO)" <Jacob.Mksyartinian@ontario.ca>, "Ostergard, Matt (TBS)" <Matt.Ostergard@ontario.ca>, "Pichelli, Jason (TBS)" <Jason.Pichelli@ontario.ca>, "Farrow, Alicia (CAB)" <Alicia.Farrow@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Bossin, Bryan (OPO)" <Bryan.Bossin@ontario.ca>
Subject: Release of 2015-16 Annual Report and Consolidated Financial Statements - Revised Communications Materials

Please find attached the revised communications materials incorporating all the latest edits. Qs and As still require a few missing pieces of information and will updated first thing in the morning.

Thank you

Sofie Di Muzio
Director (A), Communications Branch
Treasury Board Secretariat

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around a complex accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report which includes the unaudited Consolidated Financial Statements we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection. As I assured in the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then reviews this.

Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015-16 Public Accounts. We did so because this year, the Auditor General the Province' with a new interpretation of public sector accounting standards as related to the accounting treatment of jointly-sponsored pension plans and are subject to a range of interpretations.

Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences of opinion.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two

years, resulting in unqualified – or clean audit opinions. Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances as soon as possible.

The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

It is also important to stress that the two pension plans in question – the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan – are both healthy and well funded.

Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

Our officials and professional accounting staff will continue to work with the Auditor General's office to resolve this complex accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, statutory authority has been used to regulate the accounting treatment for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, public servants could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans. The regulation was needed to allow civil service accountants to sign off on the Public Accounts without compromising their professional credentials.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected
Province Remains Committed to Balance the Budget by 2017-18

News

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of Province's financial statements.

A regulation is required to allow civil service accountants to sign off on the financial statements without compromising their professional credentials. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements.

The statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by

6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was faster than that of the United States and the G7.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this national discussion. The Province will also consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTE

"The Annual Report and Consolidated Financial Statements for 2015-16 show that our government's plan to achieve fiscal balance by 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario."

- Liz Sandals, President of the Treasury Board

"The government is dedicated to a fiscally sound approach to managing the Province's finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues."

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- The Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 Financial Statements [update hyperlink]
- Explore supplementary information available through new data visualization tools [insert hyperlink]
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

www.ontario.ca/treasury-board-secretariat
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Newsroom Backgrounder

Ontario's 2015-16 Financial Statements

The 2015-16 Annual Report and Consolidated Financial Statements show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, and $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

Accounting Standards

Treasury Board Secretariat prepares the financial statements of Ontario in accordance with the legislation and accounting principles and standards for governments recommended by the Public Sector Accounting Board.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting.

The Release of Ontario's 2015-16 Financial Statements

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets, a topic subject to a range of interpretations.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, the provincial Cabinet approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General in the last ten days.

The effect of the legislation is to reflect the fiscal impact of the AG's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not provided an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that it can table the Public Accounts with the Lieutenant Governor in Council.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this

national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies practices, has acknowledged the consistent basis used by Ontario for its Budget, Estimates and Public Accounts as a best practice to supporting transparency and accountability.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables.
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts.

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing 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 totalling up to at least $16.50 per hour by April 1, 2016.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance and expand access to high quality college and university education.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province’s history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province’s history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.

- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.

- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional staff and the Auditor General continue to have differences of interpretation

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new

interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. **If PSAB is studying this issue, are other Canadian jurisdictions dealing with this as well?**

   No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

   Nadine to provide response re BC / New Brunswick

4. **What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?**

Nadine to provide response

5. **Are you saying the Auditor General is misinterpreting PSAB standards?**

   Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of interpretation.
   Nadine to provide response

6. **If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?**

   If the Auditor General had agreed with us, the province's deficit for 2015-16 would have been $3.5 billion.

7. **The province has been treating pensions the same way since 2001. When did the Auditor tell you about this new accounting treatment?**

   Well into this year's audit, the AG came to a view which she communicated to the Province on September 13.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial consideration before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   No. However, the treatment applied is consistent with the fiscal outcome proposed by the Auditor General.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

We wanted to allow the Auditor General time to provide an audit opinion on the Province's financial statements. Given we have not received an opinion, we felt it was in the public interest to release our financial statements in order to be open and transparent.

12. On what exactly do you disagree with the Auditor?

This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General in the last 10 days.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

13. If you think you're right, why would you change the numbers?

We are releasing now to ensure transparency about the province's financial position. Our results are consistent with the fiscal outcome proposed by the Auditor General. We also want to be transparent that there is still a disagreement about the treatment of pension assets.

We believe it's in the public that there be no disagreement in order to finalize the numbers. We will continue to work with the Auditor General to resolve this matter.

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. Our Financial Statements reflect the fiscal outcome proposed by the Auditor General.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The government is now including five-year trends in its Public Accounts. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can table the Public Accounts with the Lieutenant Governor in Council as soon as possible

TBC Legal

19. Has this ever happened before in Ontario? Anywhere else in Canada?

This has never happened before in Ontario.

TBC Nadine re other experience in Canadian jurisdictions

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

We are presenting the numbers that the Auditor General requested.

In the course of developing its 2015-16 financial statements, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

This is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review it. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to expedite the tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Public Service Pension Plan is nearly fully funded at 98%.

Both plans exceeded their target long-term rates of return in 2015. The Public Service Pension Plan achieved a 6.14% return and the OPSEU Pension Plan achieved an 8.0% return.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

TBC OPCD

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

We have been working with the Office of the Auditor General to try to come to an agreement on this issue since it was first raised.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to

ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes. The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.
The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult

individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Answer below needs fact check by OPCD

Our financial statements include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.
The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the AG's numbers be?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the house there will be delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

36. Clearly the government is in a spat with the AG – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the AG?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the AG's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current

Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

TBC Nadine

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial results provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

TBC Legal on question of whether it is legal for AG not to issue an opinion

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this complex accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the AG – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)

- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual

deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20.6 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Ontario.ca landing page

Ontario's unaudited 2015-16 Annual Report

The Annual Report looks back at the government's revenues and expenses. It compares and explains the province's financial performance with the goals outlined in the budget.

Overview

The unaudited 2015-16 Annual Report presents the government's financial statements and provides a picture of how finances were managed over the last fiscal year (April 1 to March 31).

The unaudited Annual Report is made up of:

- a financial statement, discussion and analysis
- consolidated financial statements
- three supporting volumes

As part of our Open Government initiative, you can find additional tools, features and tables to make the government's financial information easier to access, use and understand.

Financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

Read the financial statement, discussion and analysis (2015-16) <insert link>

See the government's five-year trends <insert link>

Unaudited Consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

Volume 1: ministry statements and schedules (unaudited)

Volume 1 contains ministry statements, detailed schedules of debt and other items. This volume details where government revenue comes from, including taxes, non-tax revenue and income from enterprises (such as the LCBO), alongside the expenses of ministries.

Read Volume 1 (2015-16) <insert link>

This graphic visualizes ministry spending information in Volume 1 of the unaudited 2015-16 Annual Report, not including financial reimbursements or recoveries. Financial reimbursements or recoveries include internal chargebacks between ministries for shared services, as well as reimbursements from external sources for the delivery of services. As a result, some amounts may differ from those in the unaudited Annual Report.

[data tree map visualization]

Select a ministry to learn more about their spending. You can also download the 2015-16 Annual Report data to create your own visualization.

Get Volume 1 data <insert link>

Volume 2: financial statements of government organizations and business enterprises

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Read Volume 2 (2015-16) <insert link>

Volume 3: detailed schedules of payments (unaudited)

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Read Volume 3 (2015-16) <insert link>

2015-16 Annual Report: financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

See the government's five-year trends <insert link>

2015-16 Annual Report: unaudited consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

2015-16 Annual Report: Volume 2

Volume 2 contains the individual financial statements of government organizations, business enterprises and other miscellaneous financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Volume 2 PDFs

- Read Volume 2a: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2b: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2c: Financial Statements of Government Business Enterprises, Trusts and Miscellaneous statements (2015-16) <insert link>

Government Organizations Summary

<Insert DATA TABLE from “PA vol2 government organizations MMDDYYYY.csv” here>

Government Business Enterprises Summary

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Trusts Summary

<Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” >

2015-16 Annual Report: Volume 3

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Download the PDF for Volume 3: Detailed Schedules of Payments <insert link>

Detailed Schedules of Payments

<Insert DATA TABLE from “PA vol3 MMDDYYYY.csv”>

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Technical briefing deck
Date:	Sunday, October 02, 2016 10:31:03 PM
Attachments:	Pension Asset Technical Briefing_Oct 2.v3.ppt ATT00001.htm

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Begin forwarded message:

From: "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>
Date: October 2, 2016 at 5:18:28 PM EDT
To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>, "Tedesco, Lauren (TBS)" <Lauren.Tedesco@ontario.ca>, "Ingram, Kelsey (MOF)" <Kelsey.Ingram@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, "Bardeesy, Karim (OPO)" <Karim.Bardeesy@ontario.ca>, "Maddock, Michael (CAB)" <Michael.Maddock@ontario.ca>, "MacKenzie, Rebecca (OPO)" <Rebecca.MacKenzie@ontario.ca>, "McEachern, Gillian (OPO)" <Gillian.McEachern@ontario.ca>, "Killorn, Bill (OPO)" <Bill.Killorn@ontario.ca>, "Mksyartinian, Jacob (OPO)" <Jacob.Mksyartinian@ontario.ca>, "Ostergard, Matt (TBS)" <Matt.Ostergard@ontario.ca>, "Pichelli, Jason (TBS)" <Jason.Pichelli@ontario.ca>, "Farrow, Alicia (CAB)" <Alicia.Farrow@ontario.ca>
Subject: Technical briefing deck

Here is the version of the briefing deck reflecting comments coming out of the briefing with the P and Ministers.

No further updates to this deck will be circulated today, but the deck may change slightly depending on tomorrow's events.

Greg

Greg Orencsak

Deputy Minister, Treasury Board
Secretary of Treasury Board and Management Board of Cabinet
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Treasury Board Secretariat
[Title: TBS logo]
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2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province's financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has said that she cannot provide her audit opinion on these financial statements, that were submitted to her on September 29.
- An audit opinion is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General's audit report, the unaudited Report is being released to support transparency and accountability.

Ontario

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province's capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.

Summary 2015-16 Results

2015-16 Actual Results*					
$ Billions	**2015-16 Budget**	**2015-16 Actual**	**2014-15 Actual**	**Change from Budget**	**% Change**
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4**	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt		**(305.2)**	(284.6)		
Accumulated Deficit		**(202.7)**	(187.5)		

*unaudited

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario's accounting practices, based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, professional staff and the Auditor General continue to have differences of opinion on how the pension assets for these plans should be accounted for under PSAB.

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since their inception in 2001.
- Under PSAB, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG communicated a view in writing on September 13 that:
  - The government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
  - Agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
  - The Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

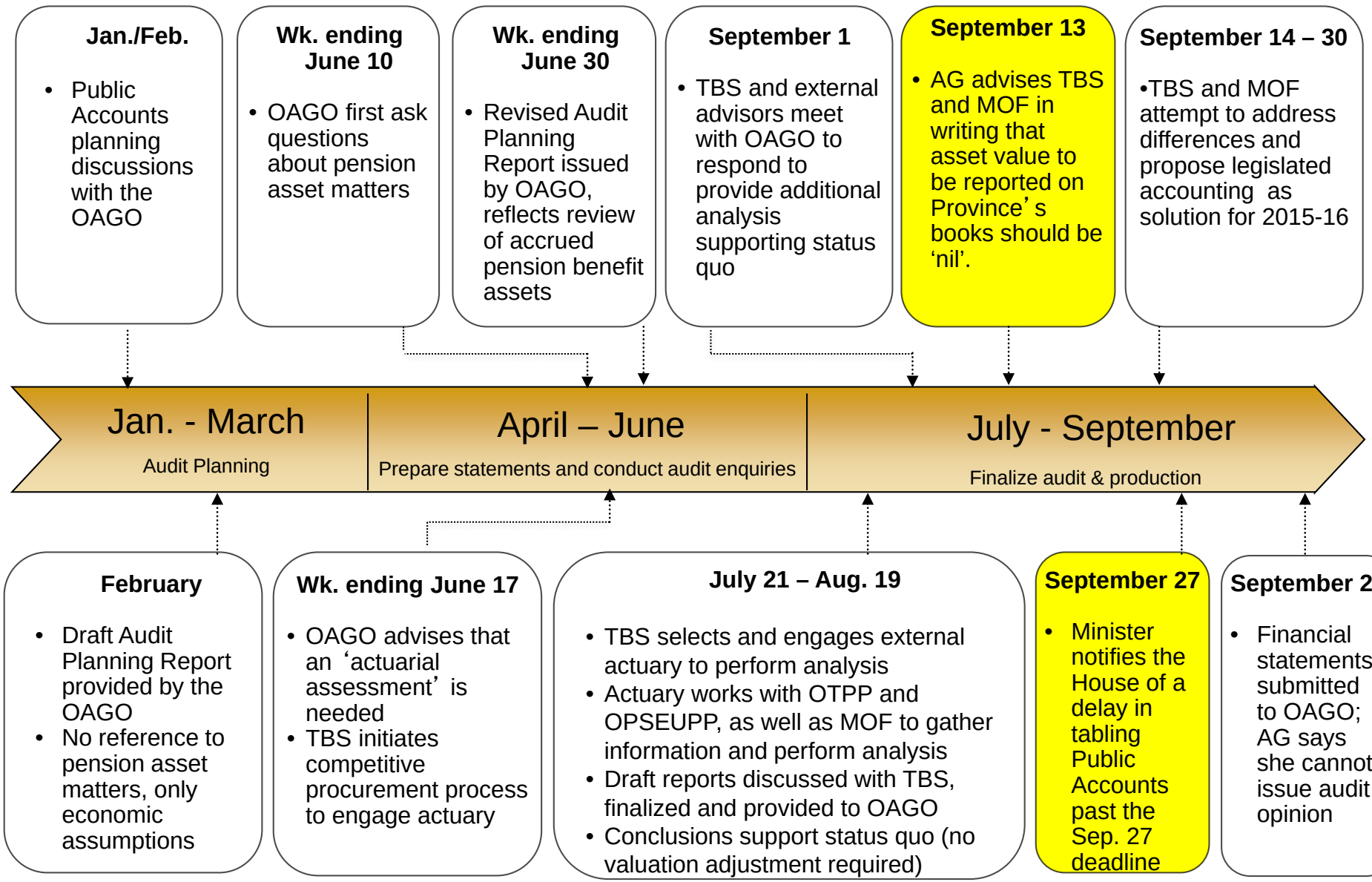
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Province's Position

- Based on professional staff's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value, which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- Professional staff do not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

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Timeline


Jan./Feb.
• Public Accounts planning discussions with the OAGO
Wk. ending June 10
• OAGO first ask questions about pension asset matters
Wk. ending June 30
• Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets
September 1
• TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo
September 13
• AG advises TBS and MOF in writing that asset value to be reported on Province's books should be 'nil'.
September 14 – 30
•TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16
Jan. - March
Audit Planning
April – June
Prepare statements and conduct audit enquiries
July - September
Finalize audit & production
February
• Draft Audit Planning Report provided by the OAGO
• No reference to pension asset matters, only economic assumptions
Wk. ending June 17
• OAGO advises that an 'actuarial assessment' is needed
• TBS initiates competitive procurement process to engage actuary
July 21 – Aug. 19
• TBS selects and engages external actuary to perform analysis
• Actuary works with OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
• Draft reports discussed with TBS, finalized and provided to OAGO
• Conclusions support status quo (no valuation adjustment required)
September 27
• Minister notifies the House of a delay in tabling Public Accounts past the Sep. 27 deadline
September 29
• Financial statements submitted to OAGO; AG says she cannot issue audit opinion

Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
  The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year ($1.5 billion) has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

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Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
  - Increase in annual pension expense by $1.5 billion, which increases the annual deficit by the same amount
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

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Impact of Regulated Accounting on 2015-16 Annual Report

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

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In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans and will conduct a valuation review of the pension assets.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Ontario

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

From:	CIU, Current Issues (MOF)
To:	Christine L. Anderson (MOF); Vinod Armoogum (MOF); Birks, Ryan (MOF); Scott Blodgett (MOF); Christian Bode (MOF); Tomasz Bugajski; Peter Burston (FSCO); Buttivant, James (MOF); Maria Cece (MOF); Sybille Chan (MOF); Charest, Sylvie (MOF); Susanne Coles (MOF); Crnekovic, Caroline (MOF); Daube, Nicholas (MOF); Antonio D"Avanzo (MOF); Jenarra DeSouza (MEDTE/MRI); David Dijong (MOF); Svetlana Diomin (MOF); Stephen Donnelly (MOF); Edwards, Malon (FSCO); Cheryl Frost (MOF); Robert Gates (MOF); Eric Gent (MOF); Linda Gibney (MOF); Gobeil, Diana (MOF); Colin Graham (MOF); Kathy Grant (MOF); Hancock, Julia (MOF); Hatami, Darius (MOF); Hay, Jenna (MOF); Eric Henry (MOF); Jeffrey Hernandez (MOF); Hess, Reet E. (MOF); Felicia Hewitt (MOF); Judith Hipolito (MOF); Alena Ingram (MOF); Kelsey Ingram (OPO); Ize-Dukuze, Marilyn (MOF); Jackson, Kelly (MOF); Bridget Jeanes (MGS); Louis Kalikow (MOF); Lauren Kappius (MOF); Kelly, Christopher (MOF); Andrew Kovarcsik (MOF); Robert Krmpotic (MOF); Pauline Kwan (MOF); Ronald Kwan; Lam, Linda (MOF); Ann Langleben (MOF); Mina Lee (MOF); Rosemay Lee (MOF); Lynch, Kelleher (MOF); Shemin Manji (MOF); Mario Manov (FSCO); Aida Masnikosa (MOF); Mavroyannis, Maria (MOF); Gadi Mayman; Francis McKenna (MOF); David McLean (MOF); PLFD Media (MOF); Elizabeth Mendes (MOF); Tammy Mepstead (MOF); Natale Milana (MOF); Wes Mills (MOF); Moore, Brynne (MOF); Rebecca Morier (MOF); Marianne Nguyen (MCYS); Kimberley Niece (MOF); Yui Nishimoto (MOF); Natalie Nolan (MOF); Andrew Ogilvie (MOF); Papadopoulos, Maria (MOF); Jiyoung Park (MOF); Christopher Pearce (MOI); Pichelli, Jason (MOF); Marc Pichette (MOF); Rob Pomykacz (MOF); Shameez Rabdi (MOF); Cathy Rae (MOF); Anjali Raghunath (MOF); Andrew Reid (MOF); Samantha Reynolds (MGS); Anne Rogers (MOF); Giulio Rubini (MOF); Sadruddin Salman (MOF); Maria Sapounas (MOF); Katrina Sehr (MOF); Sia, Riana (MOF); Vivienne Skoberne (MOHLTC); Mark Smith (MOF); Peter Spadoni (MCYS); Nicole Stewart (MCS); Garima Talwar (TCU); Ghufran Tarin (MOF); Geeta Thachil (MOF); Wallace, Julia (MOF); Charles Whitfield (MOF); Cheryl Whittam (MOF); Wing-Yee Wong (MOF); Lynsey Wynberg; Michelle Wyton (MOF); Gwendolynne Young (ENE); Christina Zhang; Sahar Ziaey (MOF)
Subject:	November 17 CINs
Date:	Thursday, November 17, 2016 1:14:40 PM
Attachments:	gender_diversity3.docx BridgePoint2.docx LLQP_transition2.docx fiscal_outlook&eliminating_deficit3.docx federal_budget2.DOC health_transfers2..docx 3-year_review2.docx catastrophic_impairment2.docx Q3_rates2.doc TD_insurance_group2.docx

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Fed-Prov:

1. 2016 Federal Fall Economic and Fiscal Update
2. Canada Health Transfer

Fiscal:

1. Ontario’s Fiscal Outlook and Path to Balance

Insurance:

1. Transition to the 2016 Life Licence Qualification Program (LLQP)
2. BridgePoint Indemnity Company (Canada) Inc.

Auto Insurance:

1. Superintendent’s Three Year Auto Insurance Review
2. The Definition of Catastrophic Impairment
3. TD Insurance Group
4. Third Quarter 2016 Auto Insurance Rates

Securities:

1. Women on Boards and in Senior Management

November 17, 2016

WOMEN ON BOARDS AND IN SENIOR MANAGEMENT

What progress is the Government making in promoting the participation of women on boards and in senior executive officer positions?

SUGGESTED RESPONSE

- **In June 2016, Ontario announced new gender diversity targets:**
    - **The Ontario government has set a target that, by 2019, women make up at least 40 per cent of all appointments to every provincial board and agency.**
    - **Ontario is also encouraging businesses to, by the end of 2017, set a target of appointing 30 per cent women to their boards of directors.**
- **At the same time, Ontario accepted all 11 recommendations made in a report Ontario commissioned from Catalyst Canada.**
    - **The new report, *Gender Diversity on Boards in Canada: Recommendations for Accelerating Progress* (Catalyst Report), provides advice on best practices in gender diversity on boards.**
- **Ontario also announced the membership of a steering committee convened to provide input on the implementation of the Catalyst Report recommendations, which Tracy MacCharles, Minister Responsible for Women's Issues, and Charles Sousa, Minister of Finance, will co-chair.**
    - **The other members of the steering committee are Gail Cook-Bennett; Victor Dodig; Catharine Farrow; Maureen Jensen; Maureen Kempston Darkes; Richard Leblanc; Rima Ramchandani; Constance Sugiyama; Barbara Stymiest; Kathleen Taylor; and Bernadette Wightman.**

- **Ontario initiated “comply or explain” disclosure requirements to promote increased representation of women on boards of directors and in executive officer positions.**

    - **Several other provinces and territories have followed our lead, resulting in the final requirements, implemented through rules of the securities regulatory authorities, taking effect in late 2014 in Ontario and nine other provinces and territories.**

    - **Following the implementation of the “comply or explain” disclosure requirements, 15 per cent of companies listed on the Toronto Stock Exchange (TSX) added more women to their boards by March 31, 2015.**

        - **10% of issuers added one or more women to the board by March 31, 2016.**

- **As a result of this approach, we now have better information from TSX-listed, non-venture issuers on the number of women on their boards of directors and in their executive officer positions.**

- **The results suggest progress is being made, but at the current rate businesses will not achieve the 30 percent targets we have encouraged them to set and achieve within three to five years.**

- **The Ontario Securities Commission (OSC) will continue evaluating to ensure that meaningful disclosure is provided regarding the representation of women and to assess whether that disclosure achieves its intended purpose.**

CURRENT STATUS

The OSC and other participating securities regulatory authorities published a staff notice on September 28, 2016 which summarizes the results of their second review of disclosure relating to the representation of women.

The staff review covered the disclosure of corporate governance practices of 677 TSX-listed issuers with year-ends between December 31, 2015 and March 31, 2016.

- There are more women on boards than last year;
  - The number of women on boards has increased in all size categories of issuers, with large issuers still leading the way;
  - In the case of the 215 largest issuers, 18% of board seats are now held by women, compared with 16% the year before, and in the case of the 42 largest issuers these numbers are 23% and 21%, respectively;
  - Overall, 12% of the total board seats in our sample were occupied by women, up slightly from 11% last year;
  - 55% of issuers have at least one woman on their boards, a 6% increase over last year, and 66 issuers (or 10%) have three or more women on their boards, compared to 56 issuers (or 8%) the year before;
- 21% of issuers adopted a policy relating to the identification and nomination of women directors compared to 15% the previous year;
  - Issuers that reported having a policy relating to the representation of women on their boards had average female board representation of 18% compared to issuers with no policy, which averaged 10% female board representation;
- 9% of issuers set a target for the representation of women on their boards, up from 7%;
  - Issuers with board targets have an average of 25% female board representation compared to issuers without targets that average 10% female representation;
- 66% of issuers disclosed that they consider the representation of women on their boards as part of their director identification and nominating process, compared to 60% reported in the previous year;
  - 70% of these issuers explained how they consider the representation of women, up from 42% last year;
- 20% of issuers adopted director term limits compared to 19% reported last year;
- Although the number of issuers having at least one female executive officer has remained relatively stable, 58% of issuers disclosed that they consider the representation of women when making executive officer appointments, an increase from 53% last year.

Maureen Jensen, Chair and CEO of the OSC, also announced that 521 board seats changed during the year, either filled by a new person or left vacant. Of these vacancies, 76 (15%) were filled by women. She noted that “Without an improvement here, we will never reach 30 per cent female board representation” and called on corporate Canada to make board diversity a priority.

Consistent with the previous year's findings, the results of the current review did not vary significantly by region. Once again, issuer size and industry were the most significant indicators of whether issuers adopted initiatives to increase the representation of women on their boards or in executive officer positions.

BACKGROUND

On June 7, 2016, concurrent with the government's gender diversity announcements, the government-commissioned Catalyst Report was publicly released. It makes 11 recommendations that aim to accelerate the pace of change, including recommendations that:

- companies and business leaders set a target of 30% women board directors for all issuers that currently have at least one woman director or a target of one woman board director for all issuers that currently have zero women board directors; and

- governments model exemplary behaviour by reviewing appointments to their own agencies, boards, commissions, and Crown Corporations, and setting a minimum goal of at least 40% women in these bodies by the end of 2019.

The OSC and other participating securities regulatory authorities published a similar staff notice on September 28, 2015 which summarized the results of their first review of disclosure relating to the representation of women. The OSC, together with certain other Canadian securities regulators, released the underlying data used to prepare the staff notice in November 2015.

The staff review covered the disclosure of corporate governance practices of 722 TSX-listed issuers with year-ends between December 31, 2014 and March 31, 2015 following the implementation of the "comply or explain" disclosure rules.

Among the issuer sample, the 2015 review found that:

- 49% had at least one woman on their board
- 60% had at least one woman in an executive officer position
- 15% had added one or more women to their board that year
- Over 30% of the issuers with a market capitalization above $2 billion had adopted a written policy for identifying and nominating women directors (14% for issuers of all sizes)
- Of those with written policies, 48% disclosed that they were adopted or updated that year
- 60% of the issuers with a market capitalization above $2 billion had two or more female directors
- 19% had adopted director term limits, while 56% had adopted other mechanisms of board renewal

The review found that issuer size and industry, not region, were the most significant indicators of whether issuers adopted initiatives to increase the representation of women on their board or in executive officer positions. For example, larger issuers (by market capitalization) were more likely to adopt a written policy relating to the identification and nomination of women directors. The insurance, utility, communications and entertainment industries had the highest policy adoption rates at roughly 30%, while the oil and gas, technology, biotech, hospitality and environmental industries had the lowest rates, at less than 10%. The review also reported that almost half of the written and disclosed policies were reported as having been adopted or updated in the past year.

The staff notice provided additional guidance to improve the quality of disclosure and increase transparency regarding the representation of women on boards and in executive officer positions.

The staff notice noted that the banking industry has generally been an early adopter of diversity initiatives and most banks have already disclosed their policies regarding the representation of women on their board and in executive officer positions. However, given the timing of the banking industry's year-ends, the results from only one bank were included in the scope of the disclosure review.

The OSC held a roundtable event on September 29, 2015 to discuss the findings from the review and to allow a panel of experts to discuss the findings and measures that may support or complement the disclosure requirements to achieve greater representation of women.

At the OSC roundtable, there was general consensus that the implementation of the "comply or explain" requirements has facilitated a modest increase in the number and percentage of women on boards and in executive officer positions and that these very early results are indicative of a cultural shift toward increasing representation of women. It was noted by a panelist that the requirements implemented by Ontario and the other Canadian jurisdictions are among the best-written and focused gender diversity disclosure requirements in the world. Several panelists noted that the review presents very early results and there is reason for cautious optimism for improved results in the coming years. However, several panelists commented that too few issuers have adopted written policies relating to the identification and nomination of women directors or targets. The importance of ensuring policies are implemented and measured was also stressed.

The OSC and the other participating securities regulators will continue to evaluate the corporate governance disclosure of non-venture issuers to ensure that meaningful disclosure is provided regarding the representation of women on boards and in executive officer positions and to measure if the disclosure ultimately achieves its intended purpose of increasing transparency.

The Ontario Women's Directorate (Ministry of Citizenship, Immigration and International Trade) issued a request for bid on July 6, 2015 to secure a consultant to develop a report to assess the quality of disclosure provided as a result of the new requirements relating to women on boards.

In its June 2015 publication of the Statement of Priorities for fiscal 2015–2016, the OSC stated that it will continue its efforts to promote transparency and representation of women on boards and in executive and senior management positions for senior exchange-listed issuers. The OSC stated that it will:

- receive and review issuer disclosures on representation of women on boards and in executive and senior management positions;
- publish results of the disclosure review; and
- hold a consultation roundtable to discuss results.

On December 31, 2014, securities law rule changes took effect in Ontario, Manitoba, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Québec, Saskatchewan, and Yukon which established a "comply or explain" disclosure regime for non-venture issuers (e.g. Toronto Stock Exchange (TSX) -listed issuers) with regard to their board and senior management governance practices – most particularly those dealing with gender diversity.

Non-venture issuers must now either disclose their policies regarding the representation of women on their boards and their consideration of the representation of women on their boards and in their executive officer positions or explain why such efforts are not underway. These new disclosure requirements will need to be included in proxy or annual information form disclosure materials filed in 2015.

The amended rule requires non-venture issuers to annually disclose information relating to (or explain why they have not adopted/considered):

- director term limits and other mechanisms of board renewal,
- policies regarding the representation of women on the board,
- the board's or nominating committee's consideration of the representation of women in the director identification and selection process,
- the issuer's consideration of the representation of women in executive officer positions when making executive officer appointments,
- targets regarding the representation of women on the board and in executive officer positions, and
- the number of women on the board and in executive officer positions.

The rule amendments:

- increase transparency for investors and other stakeholders regarding the representation of women on boards and in executive officer positions of non-venture issuers, and
- assist investors when making investment and voting decisions.

In his introduction to the 2015 Fall Economic Statement, Minister Sousa wrote:

> "Improving our competitiveness also means improving corporate governance. It is encouraging that 15 per cent of companies listed on the Toronto Stock Exchange have this year added more women to their boards of directors following Ontario Securities Commission rule changes. To continue promoting greater representation of women on boards and in senior executive positions, we are establishing a steering committee, which I will co-chair with Tracy MacCharles, Minister Responsible for Women's Issues."

The *2015 Fall Economic Statement* stated that:

> "Following the implementation of "comply or explain" disclosure requirements relating to gender diversity, 15 per cent of companies listed on the Toronto Stock Exchange (TSX) have added more women to their boards this year. To continue this momentum, the government is establishing a steering committee that will be co-chaired by Tracy MacCharles, Minister Responsible for Women's Issues, and Charles Sousa, Minister of Finance. The committee will work to improve the representation of women on boards and in senior executive positions."

The *2013 Ontario Budget* stated that:

> "The government strongly supports broader gender diversity on the boards and in senior management of major businesses, not-for-profit firms and other large organizations. In conjunction with others, including the OSC, the government will consider the best way for firms to disclose their approaches to gender diversity, with a view to increasing the participation of women on boards and in senior management."

On June 14, 2013, in support of the *2013 Ontario Budget* objective of increasing the participation of women on boards and in senior management, the then-Minister of Finance, and the then-Minister Responsible for Women's Issues, requested that the OSC:

- Undertake a review and public consultation process over the summer considering a "comply or explain" disclosure regime for reporting issuers listed on the TSX relating to board and senior management gender diversity policies and practices, and

- Provide recommendations regarding specific disclosure requirements for TSX-listed issuers and best practices for this type of approach to gender diversity by fall.

On December 18, 2013, the OSC submitted its final report to the Minister of Finance and the Minister Responsible for Women's Issues on disclosure requirements regarding women on boards and in senior management of TSX-listed and other non-venture issuers.

Enforceability of the New Disclosure Requirements

The gender diversity disclosure requirements are set forth in a rule made by the OSC which under the Securities Act has the same force and effect as a regulation.

The OSC monitors compliance with all disclosure requirements established by Ontario securities laws, including rules under the *Securities Act*. In connection with its compliance responsibilities, the OSC conducts compliance reviews and publishes compliance reports from time to time dealing with the degree of compliance by issuers with specified disclosure requirements.

In the course of conducting its compliance reviews, OSC staff may, among other things, request issuers to refile non-compliant disclosures promptly, request issuers to cure deficiencies in future filings, and, in cases of significant deficiencies, refer the matter to its Enforcement Branch. In appropriate cases of serious non-compliance with disclosure obligations, Enforcement Branch staff may choose to pursue remedies such as seeking a cease trade order (until the deficiency is cured by the issuance of corrective disclosure) in the securities of an issuer. There are other potential remedies available to OSC enforcement staff to pursue in such circumstances such as seeking an order directing the issuer to issue corrective disclosure or seeking an order denying the use by the issuer of exemptions by the issuer under the *Securities Act*.

If an issuer includes in its gender diversity disclosure a statement in a document required to be filed under the Securities Act (which would be the case with gender diversity disclosure) that in a material respect and at the time and in the light of the circumstances under which it is made is misleading or untrue or does not state a fact that is required to be stated or that is necessary to make a statement not misleading then the issuer (and each director, officer who authorizes, permits or acquiesces) may be guilty of an offence under the Securities Act and may be liable to a fine of not more than $5 million or imprisonment.

Stakeholder Consultation

In July 2013, the OSC published a consultation paper on *Disclosure Requirements Regarding Women on Boards and in Senior Management* for a 60-day comment period. 92 comment letters were submitted by a variety of stakeholders. In addition, the OSC convened a public roundtable to discuss the “comply or explain” model of disclosure set out in the consultation paper and conducted a survey – See “OSC Survey”.

Many stakeholders agreed with the OSC’s decision not to impose quotas on the number of women on boards and/or in senior management. They indicated that the “comply or explain” model of disclosure was more appropriate since it would:

- Provide greater transparency for investors, which in turn would enable them to make more informed voting and investment decisions, and

- Allow investors and other stakeholders to measure progress in this area over time.

Most stakeholders agreed that the “business case” for having women on boards and in senior management has been adequately established. They believed that diversity promotes stronger “organizational health” leading to improved direction, leadership, growth and performance of reporting issuers. Many commented that the current voluntary approach to addressing these issues has not been effective.

Specific Comments:

“Canadian boards are not diverse in respect of such considerations as gender, ethnicity and Aboriginal status. We applaud the Government of Ontario's reference to the OSC in respect of gender as the first step...We encourage the OSC to move forward with a ‘comply or explain' disclosure regime.”

- Canadian Board Diversity Council (October 4, 2013)

“PIAC supports the model of disclosure requirements proposed in the discussion paper, particularly those with regard to the consideration of women in the director selection process. All information necessary for an investor to understand an issuer's approach to gender diversity, such as their diversity policies, initiatives, targets and progress, have been captured. We feel these disclosure requirements are appropriate for all issuers.”

- Pension Investment Association of Canada (September 30, 2013)

“We propose an alternative approach that requires all TSX non-venture issuers to appoint a minimum of three (3) female directors to the board... The threshold of three women directors is a means to achieve an end (more diverse boards) and our review of the research has led us to conclude that without such a push it is not evident that sufficient progress in improving diversity would be made.”

- Wayne Kozun, Senior Vice-President, Ontario Teachers’ Pension Plan (October 4, 2013)

OSC Survey

An OSC survey, issued in November 2013 and completed by 448 TSX-listed issuers, produced the following results:

- 57% of respondents have no women directors and 53% have women in less than 10% of their executive officer positions.
- 88% of respondents do not publicly disclose the proportion of women employees in the whole organization.
- 82% of respondents do not currently have a policy regarding term limits for their directors.
- 60% of respondents did not appoint any new directors at their last annual general meeting.
- 91% of respondents do not have a policy for the identification and nomination of women directors.

- 74% of respondents do not have a talent management strategy that demonstrates a commitment to diversity generally and which includes consideration of the representation of women in executive officer positions.
- 94% of respondents have not adopted a target regarding the representation of women on its board by a specific date.
- 14%-15% of respondents who had either a board policy or a talent management strategy have procedures in place to ensure that the policy or strategy is implemented and its effectiveness is regularly assessed.

OSC Recommended Disclosure Approach:

After considering the feedback from stakeholders, the OSC published on January 16, 2014 for 90-day public comment proposed amendments to National Instrument 58-101 *Disclosure of Corporate Governance Practices*.

Over 50 comment letters were received during the 90-day public comment period. Most of the comments endorsed the OSC's recommended approach. Some comments recommended small changes and clarifications to the rule, and where deemed appropriate they have been incorporated in the proposed rule.

On July 3, 2014, the securities regulatory authorities in Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Québec and Saskatchewan published for a 60-day comment period the proposed rule amendments. These jurisdictions received submissions from 18 commenters with many of these comments similar to those previously received by the OSC.

Regulatory Framework in Other Jurisdictions Relating to Gender Diversity on Boards

In the United States (U.S.), the Securities and Exchange Commission in 2009 adopted a new rule that requires U.S. publicly-traded companies to disclose in their annual proxy statements whether, and if so how, a corporate board or nominating committee considers diversity in identifying nominees for director.

In Australia, the majority of Australian Securities Exchange- (ASX) listed companies now have a gender diversity policy in place or plan to implement one, according to the findings of an independent report released by ASX in March 2013. This was achieved following the introduction of the ASX Corporate Governance Council's gender diversity Principles and Recommendations in January 2011. Companies now must include in their annual report a statement disclosing the extent to which they have followed the Council's recommendations. It is a "comply or explain" model of disclosure.

Effective October 2012, the United Kingdom (UK) Corporate Governance Code requires listed companies to establish a policy concerning boardroom diversity, including gender, and on any measurable objectives that the board has set for implementing the policy and the progress it has made in achieving the objectives.

In November 2012, the European Commission issued a proposal that sets out a 40% target by 2020 for women in non-executive board-member positions in publicly listed companies, with the exception of small and medium-sized enterprises.

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Date Prepared:	August 25, 2015
Date Updated:	November 17, 2016
Approved by:	Kathleen Ward, Executive Lead, CCMR November 17, 2016
File Name:	n:\fall16\fin-inst\securities\gender_diversity3

Appendix A: Male vs Female Board Members of Ministry of Finance Agencies, Boards, and Commissions

At June 2016

Agency	Figures from DMO/FIPB
• Deposit Insurance Corporation of Ontario	• **4 male / 4 female (50% / 50%)**
• Financial Services Commission of Ontario	• **4 male / 1 female (80% / 20%)**
• Liquor Control Board of Ontario	• **3 male / 3 female (50% / 50%)**
• Ontario Electricity Financial Corporation	• **6 male / 2 female (75% / 25%)**
• Ontario Financing Authority	• **5 male / 6 female (45% / 55%)**
• Ontario Lottery and Gaming Corporation	• **7 male / 5 female (58% / 42%)**
• Ontario Securities Commission	• **8 male / 6 female (57% / 43%)**

November 17, 2016

BRIDGEPOINT INDEMNITY COMPANY (CANADA) INC.
(BridgePoint)

How is the Ontario government addressing the issue of alleged unlicensed insurance activity by BridgePoint?

SUGGESTED RESPONSE

- **The Financial Services Commission of Ontario ("FSCO") is the regulator responsible for the oversight of the market conduct of all licensed insurance companies, agents and adjusters in Ontario.**

- **FSCO investigates allegations of misconduct, unfair practices and non-compliance with legislation in its regulated sectors, and takes appropriate enforcement action to ensure compliance with legislation and to maintain the public's confidence in the regulated sectors.**

- **BridgePoint is not licensed under Ontario's Insurance Act (the "Act"). Nevertheless, BridgePoint offers legal cost indemnification that FSCO has determined meets the legal criteria for insurance under the Act.**

- **On July 7, 2016, the Superintendent of Financial Services issued an Interim Cease and Desist Order against BridgePoint requiring that it immediately cease and refrain from conducting insurance business.**

- **On September 22, 2016, the Superintendent of Financial Services and BridgePoint entered into Minutes of Settlement to implement a long term regulatory solution.**

- **As this matter is before the Financial Services Tribunal, it is not appropriate for me to comment further.**

CURRENT STATUS

On September 22, 2016, BridgePoint entered into Minutes of Settlement with FSCO to resolve its regulatory compliance issues under the Insurance Act (the "Act"), as further described below. In accordance with the Minutes of Settlement, BridgePoint has until December 31, 2016 to implement a long term regulatory solution to achieve compliance under the Act.

BridgePoint has entered into an arrangement with PBL Insurance Limited to administer BridgePoint's legal expenses insurance business on an interim basis. BridgePoint also is developing an arrangement to implement a long-term solution to achieve compliance under the Act, as outlined in the Minutes of Settlement.

BACKGROUND

Inquiry to FSCO

FSCO received a letter from a lawyer representing an Ontario licensed insurance company enquiring whether BridgePoint was offering a legal expenses insurance product, on an unlicensed basis, in Ontario and British Columbia. She indicated that the product is functionally the same as the enquiring insurer's legal cost indemnification insurance product, which falls under the federal and provincial definitions of the class of Legal Expense Insurance.

According to its website, BridgePoint is engaged in the business of offering specialized financial services and funding to the Canadian litigation market.

In 2009, the BridgePoint Financial Group, a business entity that apparently is related to BridgePoint, became the first company in North America to offer an indemnity against adverse costs in class-action litigation with court approval.

BridgePoint was incorporated in Ontario in September 2012. Neither BridgePoint nor BridgePoint Financial Group is, or has been, licensed as an insurer or an insurance agent or company by FSCO or the Office of the Superintendent of Financial Institutions ("OSFI").[1]

FSCO's review determined that BridgePoint's legal indemnification product, which has various names including "Legal Cost Protection", "Trial Protect", "File Protect", "Firm Protect" and "Legal Protect", seeks to indemnify litigants and law firms against adverse costs awards and disbursements incurred during the course of litigation. FSCO concluded that the product constitutes insurance under the Act.

As an unlicensed entity, BridgePoint is not subject to either FSCO's oversight or the requirements in the Act concerning audits, solvency and capital conditions, and disclosure obligations that pertain to licensed insurance companies. Since BridgePoint's product is particularly attractive to plaintiffs and their lawyers to mitigate their exposure to litigation costs, these consumers would be at potentially significant risk if BridgePoint is unable to meet its financial obligations under any of its indemnity agreements.

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[1] The OSFI is an independent agency of the Government of Canada, which supervises and regulates federally registered insurers, banks, trust and loan companies, and private pension plans subject to federal regulatory oversight.

BridgePoint's Legal Indemnification Product

BridgePoint's products are available to plaintiffs that have retained legal counsel. Many of BridgePoint's clients are seeking damages in personal injury matters. The adverse cost protection component of the product covers certain adverse costs that the plaintiff has to pay arising from litigation. The optional legal disbursements protection portion of the product covers applicable disbursement costs owing to the plaintiff's own counsel in the event the plaintiff is not entitled to a costs award as ordered by the court.

In order to obtain the protection offered by BridgePoint, both the plaintiff and their legal counsel sign a "Certificate of Indemnity" with BridgePoint, which sets out the coverage provided and the indemnity fee. The indemnity fee is not an up-front payment. It is only paid in the event of a successful claim and comes out of the award of damages received by the plaintiff. Where the plaintiff is not successful in litigation, BridgePoint pays the amount of the adverse costs award and disbursements up to a maximum amount as agreed to in the indemnity agreement.

BridgePoint's Position

BridgePoint takes the position that its legal indemnification products are not an insurance product but instead akin to a form of third party litigation funding agreement. BridgePoint indicates that the objectives of its products are similar to the objectives of the Class Proceedings Fund, established by the Law Society Act (Ontario). BridgePoint states that the Class Proceedings Fund is not an insurance company but offers limited protection options and is available only to plaintiffs in class action proceedings. BridgePoint finds a similarity between its product and the protections offered to class action plaintiffs under the Class Proceedings Fund, and views its product as enhancing access to justice.

Although BridgePoint has entered into Minutes of Settlement with the Superintendent of Financial Services, it does not accept that it engaged in any wrongdoing and has reserved all its rights in this respect.

Enforcement Action

On July 7, 2016, FSCO issued an Interim Cease and Desist Order (the "Order") against BridgePoint requiring that it immediately cease and refrain from conducting insurance business in the Province of Ontario including the advertising, soliciting, offering, sale and adjusting of legal expenses insurance.

On July 5, 2016, British Columbia's Financial Institutions Commission ("BC FICOM") issued a Cease and Desist Order demanding that BridgePoint immediately cease conducting insurance business in the Province of British Columbia, including the advertising, soliciting, offering, sale, and adjusting of legal expenses insurance under the product names Legal Cost Protection, LegalProtect, and Trial Protect. BridgePoint is not licensed to engage in insurance business in British Columbia.

BridgePoint has been keeping FSCO posted on its progress with respect to its implementation of the long term regulatory solution. The last meeting between FSCO, BC FICOM and BridgePoint was held on November 7, 2016.

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FSCO
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Date Updated: November 14, 2016
Approved by: Anatol Monid, Executive Director, Licensing & Market Conduct Division
Michael Doi, Director, Legal Services Branch
November 17, 2016

File Name: n:\fall16\fin-inst\insurance\BridgePoint2

November 17, 2016

TRANSITION TO THE 2016 LIFE LICENCE QUALIFICATION PROGRAM (LLQP)

How has the government addressed transition issues from the original program to the 2016 LLQP?

SUGGESTED RESPONSE

- **Canada's insurance regulators worked together to update and harmonize the LLQP, ensuring that new life insurance agents obtain the appropriate level of knowledge and skills to adequately advise consumers.**

- **These changes came into effect on January 1, 2016.**

- **The Financial Services Commission of Ontario (FSCO), in collaboration with other regulators, has taken several steps to smooth the transition to the 2016 LLQP, which included:**

  - **Ensuring that LLQP course providers were prepared for program delivery to candidates by fall 2015 and in 2016 having the information that they need to fine tune their course delivery.**

  - **Providing candidates with a choice of examination formats during the transition period.**

  - **Offering examination sittings in a wide range of communities across the Province and ensuring that the examination administrator is meeting its obligations for examination availability.**

  - **Arranging a psychometric assessment of the LLQP program by an independent expert.**

  - **The Superintendent of Financial Services is available to meet with insurers and course providers to hear any concerns.**

CURRENT STATUS

The updated LLQP came into effect across Canada on January 1, 2016 and was developed, and continues to be overseen, by the Canadian Insurance Services Regulatory Organization (CISRO), of which FSCO is a member.

As of October 31, 2016, over 6,300 examinations had been written across Canada. The average pass rate on the first examination attempt from July to October was 67% nationally and 65% in Ontario. The first-time pass rate has increased over time; in June 2016 it was 60% nationally and 53% in Ontario.

In accordance with the Primerica Life Insurance Company of Canada (Primerica) – FSCO Settlement Agreement (Settlement Agreement), CISRO retained an independent psychometric expert, Yardstick Testing and Measurement (Yardstick) to assess the validity of the updated LLQP examinations. CISRO released Yardstick's Interim Evaluation to stakeholders in June 2016, with a 45-day comment period. Stakeholder comments were shared with Yardstick and a Revised Opinion was released in September 2016.

Yardstick determined that CISRO uses sound psychometric procedures to develop examination items, using generally accepted professional principles. No significant issues were identified. Most of the recommendations for improvement focus on examination administration, scoring and reporting procedures (e.g., standardizing these as much as possible over all jurisdictions).

Upon the release of the Revised Opinion, in accordance with the Settlement Agreement, FSCO provided 45 days' notice to stakeholders and the general public that the compensatory examination option would be discontinued as of November 7, 2016.

As required under the Settlement Agreement, quarterly stakeholder meetings are held to provide opportunities for input and updates on LLQP progress. A Terms of Reference has been drafted for a Stakeholder Committee and will be presented at the next stakeholder meeting scheduled for December 2016.

BACKGROUND

Ontario Regulation 347/04 requires individuals who want to become life insurance agents to successfully complete the LLQP.

Canada's insurance regulators worked together through the CISRO to update and harmonize the LLQP, which was more than ten years old. The 2016 LLQP continues to be an entry-level course and credentialing examination and has the same proficiency standards as the original LLQP to ensure life insurance agents are knowledgeable about life insurance. It has been designed on a modular examination format to ensure that agents have a minimum level of proficiency in all four areas in which their licence allows them to conduct business (the prior examination format could allow an individual to pass the examination without reaching minimum proficiency in all four areas).

CISRO announced the initiative in July 2012 and it was developed with significant involvement from industry members, stakeholders and course providers. Consultation and communications were ongoing for more than three years and continue post-implementation.

There was a significant period of notice and communication to individuals wishing to qualify for a life insurance agent licence. Throughout 2015, FSCO, CISRO, LLQP course providers and the LLQP course administrator [Autorite des marchés financiers (AMF)] communicated the upcoming change to program and examination delivery, with heightened communications efforts by FSCO over the latter half of 2015.

Thirteen LLQP training programs have been authorized in Ontario. Courses for the 2016 examination became available in October 2015, giving candidates the option of studying for the original or the 2016 examination.

CISRO's LLQP Governance Committee met with insurers and course providers on August 18, 2016 to give a program update and to have one-on-one with stakeholders to hear their comments about the Yardstick report. The majority of stakeholders were satisfied and did not have substantive comments. However, Primerica identified four major areas of concern; it believed that:

- the modular examination format had inappropriately increased the overall level of difficulty[1];
- the modular examination format had resulted in lower reliability of examination results;
- the examinations might be unfair to some candidates based on demographic/ socio-economic status;
- the old LLQP exam pass rate should be used as a standard and the new pass rate should be adjusted to align with that.

Yardstick found that contrary to Primerica's assertions:

- candidates actually perform better under the new modular LLQP format than on the old LLQP examination;
- reliability of exam results was not found to be an issue;
- the reading comprehension level of the new examination is at a Grade 10/11 level, which CISRO believes is not an unreasonable expectation of a new life insurance agent;
- there is no one statistic that can measure "fairness"; Yardstick did recommend more standardization of examination administration and policies across Canada to ensure all candidates have the same experience;
- it would be inappropriate to use the former pass rate for the new examination; to establish a new pass rate, a standard-setting study would have to be conducted.

Primerica was also concerned that the cost to write the examination is higher (e.g. now $98 in Ontario, whereas the previous service provider charged $65). This is not directly related to the new LLQP; it reflects the fact that a new provider of examination administration services was

[1] The scope and methodology for the Interim Evaluation was determined and defined by Yardstick, in accordance with generally accepted professional principles, as provided for in the Settlement Agreement.

selected by FSCO for 2016 via an open competitive procurement process. The proposed examination fee was part of the evaluation of each bid.

As a temporary measure during the transition, candidates in Ontario and five other jurisdictions were given a choice of examination formats. They could choose overall scoring (the method used for the original examination, also known as compensatory) or scoring by module (the standard for the examination going forward). This option ended effective November 7, 2016; as of that date, all examinations are marked on a modular basis, as originally intended. In considering whether to discontinue the compensatory option in Ontario, FSCO considered the results of Yardstick's evaluation as well as the steadily improving pass rates for candidates, including Primerica's, since the new examination was implemented.

The current national pass rate for first-time writers is 67% for the full LLQP. This is higher than pass rates after implementation of the original LLQP.

In accordance with the Settlement Agreement there will be a second psychometric evaluation, by the same psychometric expert, within six months of the withdrawal of the compensatory option (i.e., by May 2017).

The LLQP licensing fee charged to course providers was originally set at $70 per student based on a full cost recovery model at the launch of the program. The fee was lowered to $50 on October 1st, based on higher than expected revenues.

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Date Prepared: August 23, 2016
Date Updated; November 17, 2016
Approved by: Heather Driver, Director, Licensing
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November 17, 2016

File Name: n:\fall16\fin-inst\insurance\LLQP_transition2

November 17, 2016

ONTARIO'S FISCAL OUTLOOK AND PATH TO BALANCE

What is Ontario's fiscal outlook and plan to balance the budget?

SUGGESTED RESPONSE

- **Our government's fiscally sound approach to managing the Province's finances is helping to grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.**

- **The government is projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and to remain balanced in 2018–19.**

- **The recently released *Public Accounts of Ontario 2015-2016* showed that we beat our annual deficit target again, for the seventh year in a row.**

    - **By overachieving on the Province's fiscal targets, the government is managing the Province's debt and keeping interest on debt at a manageable level.**

- **Despite a challenging global climate, the Province's economy continues to perform well and we expect to remain a provincial growth leader over the next two years.**

    - **Exports are trending higher, businesses are hiring more workers, household incomes are rising, and our unemployment rate reached an eight year low in 2016.**

- **The strengthening of the Ontario economy, together with the government's responsible approach to fiscal management, allows us to make strategic investments in new child care spaces, hospitals and electricity cost relief for Ontarians.**

- **The government's plan to balance the budget is focused on:**
  - **Making investments to spur economic growth;**
  - **Transforming government and responsibly managing spending; and**
  - **Ensuring revenue integrity and addressing the underground economy.**

- **We know there is hard work ahead to balance the budget by 2017–18. We will take the necessary steps to balance the budget while investing in priority areas that support economic growth and prosperity.**

If asked about Pensions

- **For *the Public Accounts of Ontario for 2015-16,* the government regulated a one-time change to accommodate the Auditor General's interpretation of the accounting treatment for net pension assets of Ontario's pension plans.**

- **Even with the impact of the pension adjustment, the *Public Accounts of Ontario for 2015-16* showed that we beat our annual deficit target again, for the seventh year in a row.**

- **Looking forward, the government has adopted a cautious approach to forecasting pension expense each year and has accommodated a pension adjustment over the medium-term outlook.**

- **To help inform the future accounting treatment of pension plans, the Province is establishing an advisory panel to review the matter. Recommendations from the panel will inform the *2017 Budget*.**

BACKGROUND

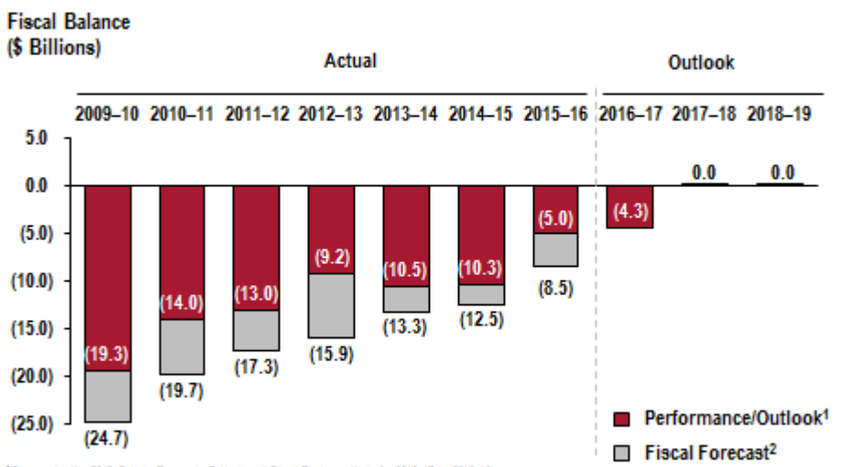
Ontario's Path to Balance

The *2016 Budget* projected an interim deficit of $5.7 billion in 2015–16, a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19.

In October, the *Public Accounts of Ontario 2015–2016* reported that the 2015–16 deficit was $5.0 billion, an improvement of $3.5 billion from the $8.5 billion projection in the *2015 Budget*.

This marks the seventh year in a row that Ontario has beaten its deficit target. By overachieving on its fiscal targets, the government is managing the Province's debt and keeping interest on debt at a manageable level. This will protect Ontarians, today and in the future, from rising interest costs, which could otherwise crowd out spending on programs and services that support Ontarians in their everyday lives.

CHART 2.1 **Ontario's Plan to Eliminate the Deficit**

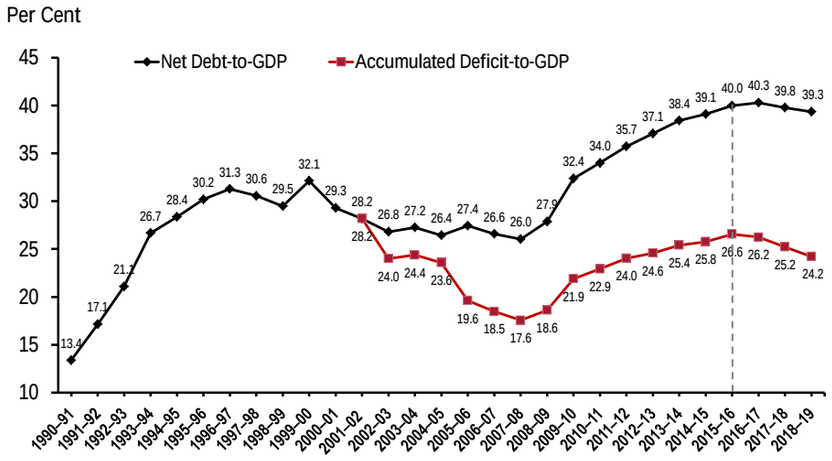


[1] Represents the 2016 Ontario Economic Outlook and Fiscal Review outlook for 2016–17 to 2018–19.
For 2009–10 to 2015–16, actual results are presented. 2015–16 actual results reflect the accounting treatment adopted in the Public Accounts of Ontario 2015–2016 including the Pension Adjustment related to net pension assets. The outlook for 2016–17 to 2018–19 also reflects the Pension Adjustment.
[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.
Source: Ontario Ministry of Finance.

Looking forward, the government continues to project a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and continued balance in 2018–19, consistent with the *2016 Budget*. The strengthening of the Ontario economy, together with the government's sound approach to fiscal management, is supporting strategic investments, such as electricity cost relief for Ontario consumers, support for public hospitals, and opening up additional child care spaces. Consistent with the accounting treatment adopted in the *Public Accounts of Ontario 2015–2016* including the Pension Adjustment related to net pension assets, the outlook also reflects a cautious approach to forecasting pension expense each year.
Even after reflecting investments and the Pension Adjustment in the fiscal outlook, the government is still committed to balance the budget in 2017–18 and remain balanced in 2018–19. To help mitigate the potential impact of the Pension Adjustment, which was not anticipated at the time of the *2016 Budget*, the government has reduced the reserve, which is included in the fiscal plan to protect the Province's fiscal outlook from unforeseen adverse changes. Other key factors contributing to this forecast are a higher-than-expected revenue projection and lower-than-forecast interest on debt.

Ontario's projected economic growth and ongoing commitment to transform government programs and services position it well for fiscal sustainability. The net debt-to-GDP ratio is projected to be 40.3 per cent in 2016–17 and then begin to decline from 2017–18 onwards. This gradual decline is a result of the investments the government is making to spur economic growth, which will result in GDP growing more quickly than debt, thereby helping to lower the net debt-to-GDP ratio to its pre-recession level.

CHART 2.2 Net Debt-to-GDP and Accumulated Deficit-to-GDP



Notes: Historical Net Debt-to-GDP was revised to reflect historical GDP released by Statistics Canada in November 2016.
Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06. These ratios include the impact of the Pension Adjustment in 2015–16 and the impact of the projected Pension Adjustment going forward.
Source: Ontario Ministry of Finance.

Going forward, there are three central elements of Ontario's plan to eliminate the deficit:

- Making investments to spur economic growth;
- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

2016-17 Fiscal Update

The government continues to project a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

TABLE 3.8 2016–17 In-Year Fiscal Update
($ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	130,589	132,720	2,131
Expense			
Programs	122,139	125,269	3,130
Interest on Debt	11,756	11,375	(381)
Total Expense	133,895	136,644	2,749
Reserve	1,000	400	(600)
Surplus/(Deficit)	(4,306)	(4,324)	(18)

Notes: Numbers may not add due to rounding.
The Budget Plan reflects the Province's historical application of public-sector accounting standards for net pension assets.
The Current Outlook reflects the approach to forecasting pension expense including the Pension Adjustment.

The Province's total revenue projection of $132.7 billion for 2016–17 is $2.1 billion higher than the 2016 Budget forecast. This is largely due to projected higher personal and corporate income tax revenues and continued strength in the housing market.

The 2016–17 program expense outlook is $3.1 billion higher than the projection in the 2016 Budget. This reflects electricity cost relief and an investment to support public hospitals. It also incorporates $2.2 billion in increased pension expense related to the Pension Adjustment.

Interest on debt expense for 2016–17 is forecast to be $11.4 billion, $0.4 billion lower than forecast in the 2016 Budget, continuing a trend that has been in place since 2010–11, through a combination of lower-than-forecast deficits and borrowing requirements, and lower-than-forecast interest rates.

As a result, the total expense outlook for 2016–17 is projected to be $2.7 billion higher than the 2016 Budget forecast.

The 2016–17 outlook also includes a $0.4 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve is reduced by $0.6 billion from the *2016 Budget* plan to help mitigate the fiscal impact of the Pension Adjustment.

2016–17 Revenue Changes since the *2016 Budget*

The Province's revenue outlook of $132.7 billion in 2016–17 is $2.1 billion higher than the 2016 Budget forecast. The increase largely reflects higher income tax revenues, particularly from Personal Income Tax and Corporate Income Tax, due to stronger-than-projected 2015 tax return results and a stronger housing market, which led to higher Land Transfer Tax revenues.

TABLE 3.9 Summary of Revenue Changes since the *2016 Budget*
($ Millions)

	2016–17
Taxation Changes	
Personal Income Tax and Ontario Health Premium	1,108
Corporations Tax	726
Land Transfer Tax	314
All Other Taxes	123
Employer Health Tax	(111)
Sales Tax	(132)
Total Taxation Changes	2,028
Government of Canada Transfers	(182)
Income from Government Business Enterprises	185
Other Non-Tax Revenues	100
Total Revenue Changes since the *2016 Budget*	2,131

Note: Numbers may not add due to rounding.

Details of 2016–17 In-Year Revenue Changes

Key changes to revenue projections since the *2016 Budget* include the following:

- **Personal Income Tax** and **Ontario Health Premium** combined revenue is $1,108 million higher than the 2016 Budget forecast, primarily due to higher 2015 revenue, based on tax returns processed since the *2016 Budget*. This is partially offset by slower projected growth in wages and salaries in 2016.

- **Corporations Tax** revenue is $726 million higher, based on 2015 tax returns processed since the *2016 Budget*. This is partially offset by slower growth in corporate profits in 2016.
- **Land Transfer Tax** revenue is $314 million higher, due to the continued strength of Ontario's housing market in 2016.
- **All Other Taxes** revenue is $123 million higher, mainly reflecting higher 2015–16 Education Property Tax, Preferred Share Dividend Tax and Tobacco Tax revenues.
- **Employer Health Tax** revenue is $111 million lower, based on 2015–16 results and slightly slower projected growth in wages and salaries in 2016.
- The outlook for **Sales Tax** revenue is $132 million lower, reflecting an anticipated negative prior-year adjustment to the Province's 2015 Harmonized Sales Tax (HST) revenue entitlement.
- **Government of Canada Transfers** are $182 million lower, mainly due to lower transfers in 2016–17 for home care and infrastructure than anticipated in the *2016 Budget*. Funding announced since the *2016 Budget* for affordable housing, postsecondary education and clean water and wastewater projects is included in the outlook.
- **Income from Government Business Enterprises** is $185 million higher, reflecting stronger 2016–17 year-to-date performances of the Ontario Lottery and Gaming Corporation (OLG) and Liquor Control Board of Ontario (LCBO).
- **Other Non-Tax Revenue** is $100 million higher, reflecting higher projected revenue related to recoveries of prior-year expenditures based on 2015–16 results.

2016–17 Expense Changes since the *2016 Budget*

The 2016–17 total expense outlook, at $136.6 billion, is $2.7 billion higher than the projection in the *2016 Budget*.

TABLE 3.10 Summary of Expense Changes since the *2016 Budget*
($ Millions)

	2016–17
Net Changes in Program Expense Reported in *First Quarter Finances*	0.9
Program Expense Changes since the *First Quarter Finances*	
Pension Adjustment[1]	2,240.5
Net Program Expense Changes Associated with Increased Federal Transfers	423.0
Green Investment Fund	325.0
8% Provincial Rebate for Electricity Consumers	300.0
Support for Improved Patient Services in Hospitals	140.3
Emergency Forest Firefighting	65.0
School Renewal Funding	37.6
Ontario's Strategy to End Human Trafficking	1.4
Contingency Funds	(404.0)
Net Program Expense Changes since the *First Quarter Finances*	3,128.8
Interest on Debt	(381.0)
Total Expense Changes since the *2016 Budget*	2,748.7

Notes: Numbers may not add due to rounding.
[1] Reflects the approach to forecasting pension expense including the Pension Adjustment.

Details of 2016–17 In-Year Expense Changes

The following program expense changes have occurred since the *2016–17 First Quarter Finances.*

- A $2.2 billion pension expense increase to reflect the Pension Adjustment. This potential impact reflects a consistent approach for pension expense as reported in the *Public Accounts of Ontario 2015–2016*.
- An expense increase of $423.0 million in 2016–17 to support new investments in social and affordable housing, postsecondary education, and projects under the Clean Water and Wastewater Fund (CWWF), fully offset by federal revenue. The net expense increase in 2016–17 of $423.0 million represents the first portion of the multi-year bilateral infrastructure agreements reached between the Province and the federal government since the *2016 Budget*. The agreements include almost $2 billion in federal support for social and affordable housing, new infrastructure investments at Ontario postsecondary institutions and the CWWF;
- An investment of $325.0 million for the Green Investment Fund, as announced in the *2015 Ontario Economic Outlook and Fiscal Review*, to support the Province's climate change strategy;
- Electricity cost relief of $300.0 million to provide a rebate equal to the provincial portion of the HST on electricity bills;
- An investment of $140.3 million to maintain and expand patient access to high-quality services in public hospitals across Ontario as they continue to meet the growing needs of their local communities. The new funding will help many hospitals sustain and improve access to key services such as obstetrics, elective surgeries and diagnostic imaging, and will help reduce wait times for hospital services;
- An increase of $65.0 million to support emergency forest firefighting activities until the end of the 2016 fire season;
- An increase of $37.6 million for school renewal funding. This expense increase is part of the additional $1.1 billion over two school years that the Province announced in summer 2016;
- An increase of $1.4 million to support planning for implementation of Ontario's Strategy to End Human Trafficking; and
- A decrease of $404.0 million in the contingency funds to offset select program expense changes that have occurred since the *2016–17 First Quarter Finances*.

Interest on debt expense is $381.0 million lower than projected in the *2016 Budget*, primarily as a result of lower-than-forecasted interest rates.

Medium-Term Fiscal Outlook

The government continues to project a balanced budget in 2017–18 and 2018–19, unchanged from the 2016 Budget forecast.

Medium-Term Revenue Outlook

The medium-term revenue outlook reflects current revenue information and projections for the Ontario economy, as well as revised assumptions related to the federal government's commitments. Revenue is projected to grow at an average annual rate of 4.1 per cent between 2015–16 and 2018–19.

Key information still to be received over the remainder of the fiscal year could have a significant impact on the medium-term revenue outlook.

TABLE 3.11 Summary of Medium-Term Revenue Outlook
($ Billions)

	Current Outlook	Medium-Term Outlook	
	2016–17	2017–18	2018–19
Revenue			
Taxation Revenue	93.8	98.1	103.0
Government of Canada	24.5	25.7	26.5
Income from Government Business Enterprises	5.2	5.5	5.9
Other Non-Tax Revenue	9.2	10.7	9.5
2016 Ontario Economic Outlook and Fiscal Review	132.7	140.1	144.9

Note: Numbers may not add due to rounding.

The medium-term **Taxation Revenue** outlook reflects current revenue information and projections for the Ontario economy. Taxation revenue is projected to grow by $11.1 billion between 2015–16 and 2018–19, or at an average annual rate of 3.9 per cent, which is consistent with average annual nominal GDP growth of 3.9 per cent.

Government of Canada transfers are projected to grow by $3.6 billion, or at an average annual rate of 5.0 per cent over the medium term. The forecast also includes new funding for postsecondary education and infrastructure projects, reflecting recently signed agreements with the federal government.

The outlook for **Income from Government Business Enterprises** (GBEs) is based on Ministry of Finance estimates for Hydro One and Hydro One Brampton and projections provided by Ontario Power Generation, LCBO and OLG. Overall revenue from GBEs is projected to grow by $1.0 billion between 2015–16 and 2018–19, or at an average annual rate of 6.4 per cent, reflecting higher net income overall from the GBEs.

The outlook for **Other Non-Tax Revenue** is based on projections provided by government ministries and provincial agencies. The outlook for Other Non-Tax Revenue is projected to increase by $0.8 billion, or at an average annual rate of 2.8 per cent, over the medium term. The Other Non-Tax Revenue outlook includes anticipated proceeds from the auctioning of cap-and-trade permits beginning in 2017 and projected net proceeds from the government's asset optimization strategy. The decrease in Other Non-Tax Revenue in 2018–19 largely reflects the removal of the debt retirement charge from electricity bills as of April 1, 2018, and a decrease in projected net proceeds from the asset optimization strategy.

Medium-Term Revenue Changes since the *2016 Budget*

TABLE 3.12 Summary of Medium-Term Revenue Changes since the *2016 Budget*
($ Billions)

	Current Outlook 2016–17	Medium-Term Outlook 2017–18	Medium-Term Outlook 2018–19
2016 Budget Total Revenue	130.6	137.7	141.9
Changes since the *2016 Budget*			
Taxation Revenue	2.0	2.1	2.8
Government of Canada	(0.2)	(0.0)	(0.1)
Income from Government Business Enterprises	0.2	0.2	0.2
Other Non-Tax Revenue	0.1	0.1	0.1
Total Changes since the *2016 Budget*	2.1	2.4	3.0
2016 Ontario Economic Outlook and Fiscal Review Total Revenue	132.7	140.1	144.9

Note: Numbers may not add due to rounding.

The outlook for **Taxation Revenue** has increased over the medium term, reflecting continued strength in the housing market in 2016 and a higher tax revenue base, including higher revenues from the processing of 2015 personal and corporate income tax returns during 2016 and higher HST revenues due in part to a projected increase in Ontario's share allocation for HST. These positive impacts are partially offset by slower nominal GDP growth in 2016 and 2017.

The lower medium-term outlook for **Government of Canada** transfers is largely due to lower Equalization payments in 2017–18 and 2018–19, and revisions to projected funding for infrastructure. This includes new funding for affordable housing, postsecondary education and projects under the CWWF.

The change in the medium-term outlook for **Income from Government Business Enterprises** reflects higher projected revenues from OLG and LCBO, based on 2016–17 year-to-date performances of these enterprises.

The change in **Other Non-Tax Revenue** largely reflects higher projected revenue from recoveries of prior-year expenditures based on 2015–16 results.

Medium-Term Expense Outlook

TABLE 3.13 Summary of Medium-Term Expense Changes since the *2016 Budget*
($ Billions)

	Current Outlook 2016–17	Medium-Term Outlook 2017–18	Medium-Term Outlook 2018–19
2016 Budget Total Expense	133.9	136.6	140.7
Changes since the *2016 Budget*			
Pension Adjustment[1]	2.2	2.8	3.7
Other Net Program Expense Changes	0.9	0.8	0.4
Total Changes in Program Expense since the *2016 Budget*	3.1	3.5	4.1
Interest on Debt	(0.4)	(0.8)	(0.7)
Total Changes in Expense since the *2016 Budget*	2.7	2.8	3.4
2016 Ontario Economic Outlook and Fiscal Review Total Expense	136.6	139.4	144.1

[1] The outlook reflects the approach to forecasting pension expense including the Pension Adjustment. The comparative impact for 2015–16 was $1.5 billion, as reported in the *Public Accounts of Ontario 2015–2016*.

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Program expense is projected to be $3.5 billion higher in 2017–18 and $4.1 billion higher in 2018–19 compared to 2016 Budget projections. The program expense outlook over the medium term is higher, mainly due to electricity cost relief for consumers and the impact of recently signed infrastructure agreements with the federal government. It also incorporates the impact of a change in forecasting pension expense each year to include the projected Pension Adjustment.

Interest on debt expense is projected to be $0.8 billion lower in 2017–18 and $0.7 billion lower in 2018–19 compared with the forecast laid out in the *2016 Budget*, primarily as a result of lower-than-forecast interest rates and cost-effective debt management.

Total expense is projected to grow to $144.1 billion by 2018–19, above the forecast included in the 2016 Budget, as a result of higher program expense, partially offset by lower interest on debt.

Fiscal Prudence

As required by the Fiscal Transparency and Accountability Act, 2004, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The current fiscal outlook includes a reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19, reduced from the 2016 Budget to help mitigate the impact of the Pension Adjustment.

The current outlook also maintains contingency funds to help mitigate expense risks — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or in the event of natural disasters — that may otherwise negatively impact Ontario's fiscal performance.

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Fiscal Framework/Office of the Budget/MOF
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November 17, 2016

2016 FEDERAL FALL ECONOMIC AND FISCAL UPDATE

What is Ontario's response to the federal government's 2016 fall economic statement?

SUGGESTED RESPONSE

- **We are encouraged by the federal government's announcements with respect to infrastructure.**

- **Over the last several years, Ontario has led the way with investments in infrastructure that are laying the foundation for economic competitiveness, productivity, job creation and are strengthening our communities.**

    - **Ontario's infrastructure plan is investing more than $160 billion over 12 years.**
    - **These are investments that improve the quality of life for all Ontarians, such as investments in hospital projects and schools.**

- **Federal funding is an important component of this plan.**

- **The Province and the federal government have already reached a number of bilateral infrastructure agreements through the initial phase of the federal infrastructure plan to invest in priority projects.**

- **We have been clear that, to support sound infrastructure planning, it is essential that federal funding agreements provide provinces with greater flexibility to direct federal funding towards existing priorities.**

- **The proposed creation of an Infrastructure Bank is something we will need to study in more detail but may yield positive results as we endeavour to leverage investments quickly.**

- **We'll need to see, for instance, how the Bank can complement Ontario's long-term infrastructure plan and support further investments in transit, transportation and other priority infrastructure, including the Moving Ontario Forward initiative.**

- **The full details of how these new investments will integrate with the Province’s plans will require ongoing collaboration and discussions moving forward.**

RELEVANT QUOTES

“Conspicuously absent from the update was a firm target for a return to a balanced budget…The finance minister takes comfort in the expectation that the debt-to-GDP ratio will remain around its current value. True, governments can be said to be fiscally sustainable if debt does not grow as a share of the economy. But what about the combined federal/provincial debt-to-GDP ratio for the next five years? After all, it is the provinces that are facing the most severe long-term demographic pressures on their finances. A constant federal debt-to-GDP ratio does not assuage worries in this respect.”

- Colin Busby and Alex Laurin, *Financial Post*
November 7, 2016

“The federal government plans to spend tens of billions more on infrastructure projects over the next 12 years…The heightened focus on infrastructure spending announced in Tuesday's fiscal update comes at the expense of Ottawa's bottom line, as Finance Minister Bill Morneau's latest plan makes no mention of when federal finances will return to balance. The Liberals are hoping that new projects will boost productivity and economic growth in the coming years, helping federal finances along the way. ”

- Bill Curry, *Globe and Mail*
November 2, 2016

“Not since the 1980s has Ottawa heard such a stark contrast between current gloom and future hope…Morneau admitted that the gloomiest projections his officials could devise as recently as April were just barely gloomy enough to match the emerging reality. Yet amid the slow growth and the nauseating onslaught of political uncertainty from every point on the compass, Morneau confirmed the Liberals are launching an audacious experiment to attract huge amounts of outside investment in government projects.”

- Paul Wells, *Toronto Star*
November 2, 2016

“Trudeau's government wears its deficit like a badge of honour that it is ready to wear well into a second, and possibly, a third mandate…This may be the first time since at least the late '70s that a finance minister updates the country on the fiscal shape of a cash-short government without at least nodding in the direction of containing/reducing/eliminating the deficit. And yet, the months since the spring budget have not been kind to its forecast. The billions set aside to cushion against a further deterioration of the federal finances have been swallowed up.”

- Chantal Hébert, *Toronto Star*
November 3, 2016

“Prime Minister Justin Trudeau famously said that the "budget will balance itself"…Finance Minister Bill Morneau's fall economic statement confirms that it's the theory underpinning the government's fiscal policy. The bet seems to be that more spending and higher deficits will ultimately produce a balanced budget, so there's no need to fuss too much in the meantime. But the past shows this is a risky bet.”

- Sean Speer, *Globe and Mail*
November 3, 2016

BACKGROUND

2016 Federal Fall Economic Statement

Finance Minister Bill Morneau released the federal government's 2016 fall economic statement on November 1st.

The statement confirms some federal platform commitments – such as the creation of an infrastructure bank - and focuses on providing additional details to the federal government's long term infrastructure and fiscal plans.

Federal Fiscal Plan

The 2016 federal Fall Economic Statement shows a slightly improved fiscal outlook over the short-term forecast horizon relative to projections from the 2016 federal budget.

- The Fall Statement projects an interim deficit of $25.1 billion for 2016-17, an improvement of $4.3 billion relative to the $29.4 billion deficit projected in the 2016 federal budget.
- The Fall Statement further projects deficits of $27.8 billion for 2017-18, $25.9 billion in 2018-19, $19.3 billion in 2019-20 and $16.8 billion in 2020-21.
- Budgetary deficits are projected to initially improve relative to those forecast in the 2016 budget, but after 2018-19 they are expected to worsen relative to the budget projections.

Summary of Fiscal Plan, $ Billions

	2015-16 Actual	2016-17 Budget	2016-17 Mid-Year	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
Total Revenues	295.5	287.7	291.1	303.3	313.2	326.2	339.5
Program Spending	270.9	291.4	291.3	306.5	313.2	317.2	326.0
Public Debt Interest	25.6	25.7	24.9	24.6	25.9	28.2	30.3
Total Spending	296.4	317.1	316.1	331.0	339.1	345.4	356.3
Budgetary Balance	(1.0)	(29.4)	(25.1)	(27.8)	(25.9)	(19.3)	(16.8)
Per Cent of GDP	*0.0*	*(1.4)*	*(1.2)*	*(1.3)*	*(1.2)*	*(0.8)*	*(0.7)*
Federal Debt	616.0	648.7	642.0	669.8	695.7	715.0	731.8
Per Cent of GDP	*31*	*31.9*	*31.6*	*31.5*	*31.5*	*31.1*	*30.6*

Source: 2015-16 Federal Public Accounts, 2016 Federal Budget , 2016 Federal Fall Economic Update

Relative to the 2016 federal budget, revenues are slightly higher in 2016-17 and 2017-18, but then lower over the remainder of the forecast period.

- This bottom line change, however, includes the removal of 2016 budget nominal GDP prudence of $40 billion from 2016 onwards.
- This translates to an additional $6 billion in revenue in each year of the revenue outlook.

Total program expenses over the 2016-17 to 2020-21 period are projected to increase modestly – a cumulative increase of approximately $12 billion – relative to the projections of the 2016 budget.

- Compared to budget 2016, direct program expenses are projected to remain largely unchanged in 2016-17, but are projected to be higher over the remainder of the forecast horizon.

The Fall Statement maintains the government's commitment, expressed in the previous Fall Statement and 2016 budget, to ensuring a declining debt-to-GDP ratio throughout their mandate.

- In spite of global economic uncertainty and new policy commitments announced in the 2016 Fall Statement, the federal government projects federal debt-to-GDP to remain below 32 per cent over a five year period, and ultimately fall to 30.4 per cent in 2020-21, against the 31.8 per cent at which it stands today.
- This debt forecast is an improvement over the 2016 federal budget, which projected that federal debt-to-GDP ratio would reach 32.5 per cent by 2016-17, only falling to 30.9 per cent in 2020-21.

Employment Insurance

EI premium revenues are projected to decline by 3.1 per cent in 2016-17 and by 5.0 per cent in 2017–18 due to the introduction of the seven-year break-even rate mechanism in 2017, which is meant to ensure that EI premiums are no higher than needed to pay for the EI program over time.

Based on the new EI rate-setting process, the EI premium rate for 2017 has been set to $1.63 per $100 of insurable earnings, down from 2016 rate of $1.88.

- Following this, the 2018 rate has been estimated at $1.66 per $100 of insurable earnings, and is maintained at that level until 2021-22 for fiscal planning purposes.

Infrastructure Initiatives

The 2016 federal Fall Economic Statement proposes $81 billion over 11 years, starting in 2017-18 for:

- public transit; green infrastructure; social infrastructure; and
- new funding categories for trade and transportation; and rural and northern communities.

Overall, the total federal infrastructure commitment is more than $180 billion over 12 years (2016-17 to 2027-28) nationally.

No details have been provided on Ontario's share of this funding, or how funding will be distributed. Further allocation details will be announced in the 2017 federal budget.

Canada Infrastructure Bank

The government will establish a new Canada Infrastructure Bank that will work with provinces, territories and municipalities to provide

innovative financing for infrastructure projects, where public capital can be leveraged.

- The Canada Infrastructure Bank will be responsible for investing at least $35 billion on a cash basis from the federal government into large infrastructure projects that contribute to economic growth through direct investments, loans, loan guarantees and equity investments.
  - Of this amount, $15 billion will be sourced from the announced funding for public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities.
  - An additional $20 billion in capital will be available to the Canada Infrastructure Bank for investments which will result in the Bank holding assets – in the form of equity or debt. Thus this $20 billion will not result in a fiscal impact for the government.

Public Transit Infrastructure Funding

Commitment: $25.3 billion over the next 11 years for public transit systems across the country.

- A portion of the funding will flow through the Canada Infrastructure Bank.

Ontario projects referenced in the federal Fall Economic Statement include Stage 2 of the Confederation Line project in Ottawa and the Regional Express Rail project in the GTHA.

Green Infrastructure Funding

Commitment: $21.9 billion over the next 11 years to support green investments relating to reducing greenhouse gas emissions, enabling greater climate change adaptation and resilience, ensuring community access to clean air and safe drinking water.

- A portion of the funding will flow through the Canada Infrastructure Bank.

Eligible project types could include:

- Inter-provincial transmission lines that reduce reliance on coal;
- Development of new low-carbon/renewable power projects;
- Expansion of smart grids to make more efficient use of existing power supplies;
- Construction of infrastructure to help manage risks associated with floods and wildfires; and
- Federal government will work with partners to select projects and establish environmental targets.

Social Infrastructure Funding

Commitment: $21.9 billion over the next 11 years for social infrastructure across the country.

- Broad project types may relate to items such as affordable housing and child care spaces.

The federal government will work with partners to establish targets, such as: a reduction in 'core housing need' households; an increase in affordable child care spaces; a reduction in overcrowding in housing for First Nations.

Trade and Transportation Infrastructure Funding

Commitment: $10.1 billion over the next 11 years for trade and transportation projects.

Priority investments include:

- Addressing congestion and bottlenecks along vital corridors, transportation hubs and ports providing access to world markets.
- Addressing critical transportation needs in the north to connect northern communities to trade and investment opportunities.
- Focus on marine and rail safety, including increasing inspection capacity.

Infrastructure Funding for Rural and Northern Communities

Commitment: $2 billion over the next 11 years to support infrastructure in rural and northern communities.

Eligibility criteria may include:

- Expanding road access and internet connectivity;
- Upgrading heating systems;
- Pursuing renewable sources of energy; and
- Reducing reliance on diesel.

<u>Expenditure and Other Measures</u>

The government is allocating $218 million over five years to create a new federal body, the Invest in Canada Hub, that will employ a new, dedicated high-impact sales force to promote Canada and to work with global companies to increase investment that will benefit Canada, and to increase the number of trade commissioners focused on investment attraction in strategic markets.

The threshold for review under the Investment Canada Act will be raised to $1 billion in 2017, two years sooner than the planned date in 2019.

- Before the end of 2016, the government will publish guidelines under which investments are examined under national security provisions.

The government proposes to launch a Global Skills Strategy that will set a two-week standard for processing visas and work permits for global talent.

The government introduced a short-duration work permit exemption that apply for work terms fewer than 30 days a year or for brief academic stays, and will be used to facilitate short-term, inter-company work exchanges, study exchanges, or the entrance of temporary expertise.

Due to declines in the national nominal GDP outlook included in the Fall Economic Statement, federal expenditure on major transfers is projected to be lower than outlined in the 2016 federal budget.

- Projections for total Canada Health Transfer entitlements have been revised downward by approximately $0.9 billion over the next four years.
  - As a result of revised GDP forecasts in the federal government's Fall Statement, Ontario's CHT entitlements are expected to be reduced by approximately $350 million over the next four years compared to projections in the 2016 budget.
  - As a result of revised GDP forecasts in the in the federal government's Fall Statement, forecasts for Equalization entitlements have also been revised downward by about $0.7 billion over four years compared to projections in the 2016 budget.

The government proposes to index the Canada Child Benefit beginning with the 2020-21 benefit year.

Starting July 2016, the government increased the Guaranteed Income Supplement (GIS) by up to $947 per year for the lowest-income single seniors.

In addition to the above mentioned expenditure measures, the Fall Economic Statement also includes other announcements such as strengthening the independence of the Parliamentary Budget Officer (PBO) and Statistics Canada.

<u>2016 Federal Budget</u>

Finance Minister Bill Morneau released the federal government's 2016 budget on March 22nd. The budget outlined the government's plans to deliver on its campaign commitments and to "grow the middle class."

The budget announced details of its plans around the following key pillars:

- *Help for the middle class*: announcing details on the design for the new Canada Child Benefit, new support for students, funding for training, and changes to EI benefits;
- *Growth for the middle class*: new infrastructure funding and launching a new Innovation Agenda;
- *A better future for Indigenous people*: Making progress on issues important to indigenous peoples such as education and housing;

- *A clean growth economy*: Investments to promote a clean economy and to combat climate change; and
- *An inclusive and fair Canada*: Increase support for seniors by restoring eligibility ages for OAS and increasing GIS and launching consultations on enhancing the Canada Pension Plan (CPP).

The budget did not:

- outline the federal government's plan to return to balance.
- provide details on funding for home care outlined in the platform; or
- address long-term funding for health care or reforms to the Equalization program.

The budget confirmed most of the tax measures that were committed to in the platform.

The Estimates and federal Budget Implementation Act containing the tax and regulatory measures announced in the budget received royal assent on June 22, 2016.

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CANADA HEALTH TRANSFER

In 2016-17, Ontario will receive $13.9 billion from the Canada Health Transfer. Under current federal legislation, growth in the Canada Health Transfer is scheduled to change from 6 per cent per year to the rate of economic growth (GDP), starting next year.

SUGGESTED RESPONSE

- **The new partnership with the federal government has produced positive results, but there still remains a need for the federal government to take a principled approach to action in key areas, such as supporting the long-term sustainability of health care systems.**
    - **In their 2016 budget the federal government committed to work collaboratively with provinces and territories towards a new multi-year Health Accord.**
    - **Ontario is committed to working with the federal government to make this happen, and to ensure that support is adequate, that it responds to changing demographics and is sustainable over the long term.**
    - **Federal support through the Canada Health Transfer is a key element of the long-term sustainability of health care systems.**
- **Health spending is the largest line item in the Province's budget by far, and the demands on health care services will be increasing through the pressure associated with demographic factors, such as an aging population, along with other cost-drivers.**
- **At the same time, the health funding partnership has weakened since the early days of Medicare.**
    - **The federal share of provincial-territorial health spending is down from historical levels of funding and is projected to decline steadily over the longer term – particularly given the impending cut to the Canada Health Transfer escalator, which has been in place since the 2004 Health Accord was signed.**

- **Based on this unilateral federal decision made in 2011, the rate of Canada Health Transfer funding growth will be cut from 6 per cent to a new floor of 3 per cent beginning next year.**

- **This imminent reduction in the Canada Health Transfer escalator will put enormous pressure on PT health systems and additional investments are required to maintain sustainability.**

  - **The negative budgetary impact of the reduction in the CHT escalator for all provinces and territories will be over $1 billion in the first year alone – and over $400 million in Ontario.**

  - **This national figure is projected to increase to a cumulative impact of over $60 billion over the next ten years.**

- **At the recent Provincial and Territorial Health Ministers' Meeting, both Health and Finance Ministers agreed that a funding partnership is needed in sustaining and transforming Canada's health care systems to address the needs of patients and their families now and in the future – and that this partnership starts with a federal government that is willing to work with all jurisdictions**

  - **Provinces and territories continue to innovate in order to improve the effectiveness of the Canadian health care systems, and Ontario remains focused on delivering excellent health care in the community.**

RELEVANT QUOTES

“On the issue of health care, Mr. Harper refused to actually talk with the Premiers about health care. He just kept sending cheques to the provinces without even checking on what the money was being spent on…We simply want to say, “Yes, we’re going to continue to invest in health care.” We know it matters for Canadians, but we want to make sure that the federal money invested in health care actually gets spent on health care by the provinces. I don’t think that’s unreasonable.”

– Prime Minister Justin Trudeau on CBC Radio
October 19, 2016

“When we give money to health as a federal government we are an accountable government…So when we make investments in health we want that money to go to health. And that in fact there is work to be done and the work that we need to do for Canadians is not about spending more money. It is about transforming the system.”

– Federal Minister of Health Jane Philpott
October 17, 2016

“There is a partnership here. The delivery of health-care services, those principles of universality and portability that Canadians hold so dear are the function and the result of that partnership…But the partnership is changing, and unless the federal government is prepared to revisit a decision made by a previous federal government, that partnership will continue not only to change, but to deteriorate. And that’s bad news for all Canadians.”

– BC Finance Minister Michael de Jong
CBC News Article, October 17, 2016

“Many, either naively or through self-delusion, assumed the Liberals would return to the old formula and 6-per-cent annual increases. But they promised no such thing during the election campaign. In fact, the Liberals promised three distinct things: “More and better home care,” improved access to prescription drugs, and more available mental-health services...The only monetary promise was $3-billion over four years for home care. In other words, the government-to-be (and now ruling party) sent a clear message that it’s willing to invest in targeted programs.”

– Andre Picard, Globe and Mail
October 16, 2016

“I do not intend to push for an increase in the escalator… I know that the provinces and territories are hoping for new investments in health care, and I hope that we will be able to deliver those. We've already made it clear about [committing] $3 billion for home care. I want that in the 2017 budget”

– Federal Minister of Health Jane Philpott
September 25, 2016

"The federal cash share currently stands at about 22 per cent, down from 33 per cent in 1984, when the Canada Health Act was passed. Federal spending in this sector is projected to fall steadily over the long term given the current program structure and weaker growth rate formula. In this regard, it is difficult to imagine the preservation of the principles of the Canada Health Act without more federal skin in the game. It is also difficult to imagine a major reshuffling of taxpayer dollars toward provinces and territories without renewed efforts to use innovation to help flatten steepening health cost curves."

– Kevin Page, Sahir Kahn, Helaina Gaspard in *The Globe and Mail*
July 19, 2016

"Decisions about the Canada Health Transfer are not decisions that health ministers can make; they are decisions that require the input of first ministers and finance ministers…Our government has already made an indication that we are going to invest $3 billion in home care. In all likelihood that will not be part of the Canada Health Transfer…That would be a separate fund that would be made available based on what we agree as health ministers would be important initiatives…and agree to use it and be able to measure the results of its use."

– Federal Health Minister Jane Philpott
CBC interview, January 21, 2016

"If more federal transfers were the answer to provincial fiscal woes, this money should have eased their plight. Yet aggregate provincial deficits are larger now than they were following the federal restraint of the late 1990s.…A reasonable interpretation of that experience would be that the provinces responded to increases in federal money mainly by spending more, rather than by undertaking reforms that would let them provide more bang for the buck in their services, including healthcare, over the long term."

– C.D. Howe Institute,
Managing Healthcare for an Aging Population, December 10, 2014

"By indexing federal funding for health care at the rate of growth of GDP, the federal government has mostly insulated itself from the fiscal impact of an aging population. But provincial governments, with direct constitutional responsibility for the delivery of health care, are unable to do so."

– Parliamentary Budget Officer, September 30, 2014

BACKGROUND

The Canada Health Transfer (CHT) is largely an unconditional block transfer with funding spent according to provincial/territorial priorities.

– To qualify for full funding, provinces and territories must meet the criteria and conditions of the Canada Health Act.

The CHT will total $36.1 billion nationally in 2016-17; of this, Ontario will receive $13.9 billion in CHT payments. This represents a growth rate of 6.1 per cent over the $13.1 billion Ontario received in 2015-16.

– CHT transfer payments are allocated to provinces and territories on an equal per capita cash basis. Ontario's share is approximately 38.5 per cent of the total envelope in 2016-17.

Table 1: CHT Entitlements

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	ALL*
2016-17											
$ Millions	528	148	944	753	8,278	13,897	1,310	1,143	4,226	4,723	36,068
per capita	*997*	*997*	*997*	*997*	*997*	*997*	*997*	*997*	*997*	*997*	*997*
2015-16											
$ Millions	502	139	896	717	7,841	13,095	1,229	1,075	3,965	4,445	34,026
per capita	*950*	*950*	*950*	*950*	*950*	*950*	*950*	*950*	*950*	*950*	*950*
2014-15											
$ Millions	*490	132	852	682	7,420	12,353	1,156	1,013	3,718	4,190	32,113
per capita	*926*	*904*	*904*	*904*	*904*	*904*	*904*	*904*	*904*	*904*	*904*

*Note: Numbers may not add due to rounding. *Total for Newfoundland and Labrador includes protection payments for move to a per-capita allocation; Canada total includes transfers to the territories, and protection payments to Newfoundland and Labrador or Nunavut in 2014-15. Figures are presented on an entitlement basis and may vary from those presented on a PSAB basis, such as in the Ontario budgets and updates.*

In 2016-17, Ontario's CHT entitlement is projected to represent roughly 27 per cent of health care spending in the province.

Table 2: CHT as a share of Ontario Health Spending

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Ontario CHT Entitlement ($ Millions)	9,722	10,141	10,673	11,339	12,027	12,353	13,095	13,897
MOHLTC Expenditure ($ Millions)	43,054	44,414	46,503	47,594	48,933	50,039	51,067	51,931
CHT as a share of Ontario Health Spending	*22.6%*	*22.8%*	*23.0%*	*23.8%*	*24.6%*	*24.7%*	*25.6%*	*26.8%*

Source: Department of Finance Canada, Ontario Ministry of Finance
Note: MOHLTC expenditure figures are projections for 2016-17. CHT Entitlement figures are presented on an entitlement basis and may vary from those presented on a PSAB basis, such as in the Ontario budgets and updates.

Renewal of Major Transfers

Total CHT cash funding levels are set in federal legislation to grow at 6 per cent per year until 2016-17.

Based on a decision made by the previous federal government in 2011, starting in 2017-18, total CHT funding is scheduled to grow in line with a three-year moving average of nominal growth of Canada's GDP, with funding guaranteed to increase by at least 3 per cent per year.

- At the October 2016 PT Health Ministers Meeting, Finance and Health Ministers argued that the federal share of provincial-territorial health spending is down from historical levels of funding and is projected to decline steadily over the longer term – particularly given the impending cut to the Canada Health Transfer (CHT) escalator.
- PT Ministers stated that, compared to a continuous 6 per cent escalator, the reduction in the CHT growth rate will have a negative budgetary impact of over $1 billion in 2017-18, representing a cumulative negative impact of over $60 billion over a 10 year period.
- The new federal government has indicated that a key priority will be to engage provinces in the development of a new multi-year health accord that includes long-term funding.
  - Thus far, the federal government has indicated that it is not interested in increasing funding to the CHT.

FPT Discussions on a Shared Health Agenda (Health Accord)

At the October 2016 FPT Health Ministers Meeting, the federal government and provincial/territorial governments were unable to make progress on a shared health agenda or health accord.

– PTs have argued that discussions cannot be solely focused on priority areas – the amount of funding the federal government is willing to provide is an important part of the discussion.
– The federal government is interested in investing in three priority areas that include, home and community care, mental health and addictions, and innovation.
– Pharmaceuticals and Indigenous health will likely be accounted for by means other than funding for provinces and territories (federal regulatory changes, direct federal spending).

FPT health ministers met on January 21, 2016, in Vancouver and discussed shared health priorities. Ministers agreed to work individually and collectively on the following immediate priorities where efforts will yield the greatest impact:

- Enhancing the affordability, accessibility and appropriate use of prescription drugs;
- Improving care in the community, home care and mental health, to better meet the needs of patients closer to home and outside of institutional settings; and
- Fostering innovation in health care services to spread and scale proven and promising approaches that improve the quality of care and value-for-money.

Regarding funding commitments, the federal minister confirmed the federal government's commitment to work collaboratively with provinces and territories toward a long-term funding arrangement, which would include bilateral agreements.

Position of the Federal Government

The Prime Minister maintains that he is interested in investing in health care, but has stated that he would like to ensure that any federal funding to provinces and territories for health care is actually spent on health care.

Federal Health Minister Philpott has repeatedly commented that the federal government is not interested in unconditional funding, and that targeted funding is required to achieve transformation within health systems.

– The federal government has committed to negotiating a new long-term federal-provincial health accord, but will not make advanced public commitments regarding the amount of funding.
– Federal Health Minister Philpott has been quoted in the media saying that she would like negotiations on a new health accord to be concluded in 2016, with its details announced in the 2017 federal budget.

The federal mandate letter addressed to the new Minister of Health provides instruction to engage provinces and territories in the development of a new multi-year Health Accord which should include a long-term funding agreement. The Accord would also focus on:

- home care services;
- health innovation;
- access to necessary prescription medications; and
- availability of mental health services.

Position of Provinces and Territories

Finance and Health Ministers met on October 17, 2016, at the PT Health Ministers' Meeting in Toronto and agreed that a funding partnership is needed in sustaining and transforming Canada's health care systems, and that this partnership starts with a willing federal partner. The current funding partnership is expected to decline, particularly as the growth rate to the CHT is expected to be cut in 2017-18.

– They reiterated Canada's Premiers' request to the Prime Minister to hold a First Ministers' Meeting on health care as well as the call to postpone the impending CHT escalator reduction if the meeting is not possible in fall.

Canada's Premiers have sent two letters to Prime Minister Trudeau requesting a First Ministers' Meeting on long-term health funding in fall 2016.

– The second letter also requested that, if a meeting is not possible, the federal government extend the 6 per cent CHT escalator for one additional year.

In late September, Canada's Premiers received two letters from the Prime Minister in response to the provincial-territorial letters.

– The Prime Minister stated that together with predictable funding, transformation is key for long term sustainability – focusing on a new five year health accord as an opportunity to build on PT health reform.
– The Prime Minister did not confirm an FMM on health, but rather noted the upcoming FMM on Climate Change, and that officials would work together on the agenda.

At the July 2016 COF meeting, Premiers discussed the need for Canada's health care system to remain sustainable and to ensure quality health care services despite challenges, such as chronic disease, pharmaceutical costs, a growing aging population and the disparities in health outcomes for Aboriginal peoples.

– Premiers called on the federal government for an immediate increase in funding through the CHT as part of a greater long-term funding partnership on health care for Canadians;
– Premiers called for a meeting with the Prime Minister in the fall, dedicated to advancing a long-term agreement on health care funding;
– Premiers directed PT Finance Ministers to develop options for increased federal funding through the CHT.
– A report-back was presented to Premiers from the Health Care Innovation Working Group (HCIWG), whose achievements include collaborative efforts on pharmaceuticals resulting in price reductions for 18 generic

drugs and negotiated price agreements for 95 brand name drugs. Going forward the HCIWG will focus on using technology and innovation to improve affordability, predictability and patient care.

2016 COF Mandate for Finance and Health Ministers

In a mandate letter to PT Finance Ministers following the meeting, Premiers directed PT Finance Ministers to work with PT Health Ministers to develop options to secure an immediate increase in funding through the Canada Health Transfer.

– Premiers requested a timely report on this work to support the Premiers' discussion with the Prime Minister on long-term sustainable health care funding.

As mandated by Premiers, PT Finance, working with health officials have developed CHT funding options through a two-stage process.

– Stage 1 provides a historical overview of federal funding for health care; demonstrates the need for the federal government to become a more significant funding partner to support the sustainability of PT health care systems; and considers current health funding drivers.
– The final report, or Stage 2, builds on the evidence provided in the Stage I Report, and presents a range of approaches, with five specific options, for an enhancement to the CHT.

Recent Reports

On June 28, 2016, the *Parliamentary Budget Officer* (PBO) released the 2016 'Fiscal Sustainability Report', which highlights that an imbalance continues to exist between the federal and provincial-territorial governments in Canada.

– The federal government continues to have fiscal room to either increase spending or reduce taxes while maintaining its fiscally sustainable position, while provinces are projected to remain in a fiscally unsustainable position.
– The report highlights that population aging continues to be a challenge for subnational governments.
– As a share of GDP, the PBO identifies health care spending as the primary driver of growth in subnational spending, which is largely due to aging demographics and excess cost growth (or enrichment).

Age Based CHT Distribution

According to CIHI, overall, population aging is a modest driver of increasing health care costs, estimated at 0.9 per cent per year. The share of public-sector health care dollars spent on Canadian seniors has not changed significantly over the past decade – from 44.0 per cent in 2000 to 45.4 per cent in 2013. During the same time period, the percentage of seniors in the population grew from 12.6 per cent to 15.3 per cent.

However, the number of Canadians aged 65 and older will make up an increasingly larger share of the population, and this will have consequences for provinces and territories, including potential impacts on health care costs.

- A May 2015 study by the Policy and Economic Analysis Program (University of Toronto) showed that if provinces were today faced with the health care needs of the age profile of 2025, expenditures would be 13 per cent, or $17 billion, higher.
- The potential impacts of this demographic change make the need for collaboration and transformation of the health care system even more pressing.

In 2016, Statistics Canada projects that Ontario's overall share of the national population (38.5 per cent) will be higher than Ontario's share of seniors (38.1 per cent).

- This fact means that any transfers allocated based on provincial seniors population will result in lower entitlements for Ontario than an equal per capita allocation.
- Based on StatsCan population projections, Ontario is expected to have a growing proportion of seniors over the next two decades, with the Ontario's share of seniors surpassing Ontario's share of the national population between 2026 and 2027.
- An allocation formula based on senior population benefits the Atlantic Provinces, British Columbia and Quebec.
  - Alberta, Saskatchewan, Manitoba and the territories are disadvantaged compared to an equal per capita allocation.
  - Based on StatsCan projections, while Ontario is currently disadvantaged by an equal per senior formula, the province could see benefit from it in future.

In the past, some provinces have advocated for the inclusion of demographic elements within the CHT formula.

- In its 2015 budget, Quebec was critical of the current equal per capita cash allocation of the CHT for the following reasons:

  - Because health care costs are significantly higher for individuals over the age of 65, an equal per capita CHT allocation favours provinces with younger populations. Quebec points out that the Atlantic provinces and Quebec have higher shares of seniors than other provinces; and
  - By no longer including the value of provincial income tax points in the determination of the cash transfer, the current formula does not provide additional fiscal support to provinces with relatively weaker tax bases.

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November 17, 2016

SUPERINTENDENT'S THREE YEAR AUTO INSURANCE REVIEW

What is the status of the Superintendent's three year review of auto insurance legislation and regulations?

SUGGESTED RESPONSE

- **The upcoming three year review of Ontario's auto insurance system will start later this year. The proposed focus for this review is the consumer.**

- **The government has already moved to reduce cost pressures and auto insurance rates through various reforms, with the most recent set announced in the 2015 Ontario Budget and many changes coming into effect on June 1, 2016.**

- **The recommendations in the Superintendent's 2014 report support the government's 2015 and 2016 auto insurance reforms.**

CURRENT STATUS

The upcoming three year review on Ontario's auto insurance system will start later this year. The proposed focus for this review will be the consumer.

On July 31, 2015, FSCO posted the Superintendent's 2014 report on the three year review of auto insurance on its website. There was little to no stakeholder reaction to the report, possibly due to the low-key mid-summer release.

BACKGROUND

Legislative scope of the three year review of auto insurance:

The Insurance Act (Act) requires the Superintendent of FSCO to undertake a review of the legislative and regulatory provisions governing the auto insurance system at least once every three years, beginning in 2013.

The three year auto insurance review covers Part VI of the Act (automobile insurance) and related regulations, including the Statutory Accident Benefits Schedule (SABS) and coverages, categories of automobile insurance, and risk classification systems.

The 2014 report on the three year review of auto insurance:

- Provided an overview of Ontario's existing auto insurance system
- Reviewed the impacts of the 2010 auto insurance reforms
- Compared Ontario's auto insurance product and experience with other Canadian provinces with privately-delivered auto insurance
- Summarized stakeholder feedback
- Offered 10 recommendations to improve Ontario's auto insurance system
  - The report's 10 recommendations support the government's reforms in 2015 and 2016

2015 Ontario Budget – Auto Insurance Reforms (effective June 1, 2016)

On April 23, 2015, the government announced reforms to further reduce auto insurance rates while balancing the needs of injured claimants:

- Change the standard benefit level for medical and rehabilitation benefits to $65,000 (from $50,000) and include attendant care services under this benefit limit. Consumers will also have an option to increase that coverage up to $1 million;
- Include attendant care services with the $1 million medical and rehabilitation benefit for catastrophic impairments, and provide the option for additional coverage of $1 million, for $2 million in total coverage;
- Reduce the standard duration of medical and rehabilitation benefits from 10 years to five years for all claimants except children; Eliminate the six-month waiting period for non-earner benefits and limit the duration of non-earner benefits to two years after the accident;
- Require goods and services not explicitly listed in the Statutory Accident Benefits Schedule (SABS) to be "essential" and agreed on by the insurer; and

- Change the standard deductible for comprehensive coverage to $500 from $300.

Focus for the 2016 Three Year Review

- Focus is on consumer education and empowerment.
- Auto insurance has undergone numerous and extensive reviews over the past decade, most recently resulting in the June 2016 reforms.
- Improving the consumer experience is one area that has not been reviewed and merits attention.
- A recent survey commissioned by FSCO revealed that Ontarians may not know as much about their auto insurance as they believe they do. It indicated that while 75 per cent of Ontarians who have auto insurance state they are familiar with the benefits and coverages in their auto insurance policy, only 10 per cent are very knowledgeable about the elements in a standard auto insurance policy.
- The Mandate Review, submitted to the Minister of Finance in March 2016, calls for a mechanism to ensure that the perspective of consumers is considered in all of the regulatory body's policy-making and actions. This Review will support this future mandate.
- The Three Year Review will seek to understand weaknesses in consumers' understanding of auto insurance; identify approaches and vehicles for improving communications with consumers; and explore avenues for obtaining consumers input to policy development and system changes.

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November 17, 2016

THE DEFINITION OF CATASTROPHIC IMPAIRMENT

Why did the criteria for a catastrophic brain injury change and what other changes have been made to the Definition of Catastrophic Impairment?

SUGGESTED RESPONSE

- **The government has amended regulations to update the catastrophic impairment definition consistent with more up-to-date medical information and knowledge.**

- **The changes are based on recommendations in the Superintendent's Report on the Definition of Catastrophic Impairment with modifications to permit for the combining of mental and physical impairments.**

- **The definition used for assessing catastrophic brain injuries was replaced with new criteria based on more current and up to date scientific evidence.**

- **The changes are aimed at ensuring the continued generosity of Ontario's auto insurance system while also ensuring affordable auto insurance for Ontario drivers.**

- **Ontario's auto insurance benefits are the most generous among Canadian jurisdictions with privately-delivered auto insurance.**

CURRENT STATUS

The new definition became effective for all accidents occurring on or after June 1, 2016.

On October 11, 2016, the CBC reported on a motorcycle crash that occurred in Delhi, Ontario on June 1, 2016 (the effective date of the new definition) where an Ontario man suffered serious head injuries. As a result of the definition change that came into effect twelve hours prior, the person was no longer able to immediate qualify as a catastrophic impairment using the Glasgow Coma Scale (GCS) criteria which was no longer being used.

The CBC report suggested that had the accident occurred twelve hours earlier, the injured man may have been immediately eligible for up $2 million in compensation as opposed to $86,000.

The GCS was eliminated as a result of scientific evidence about its questionable ability to predict long term outcomes. Based on current scientific research and evidence, the GCS was replaced with the Extended Glasgow Outcome Scale (GOS-E) that is designed to assess longer term functional outcomes. The GOS-E can be used to assess individuals with traumatic brain injuries depending on the severity of the injuries at one month, six months or one year after the accident. The timing of the assessment contrasts the GCS, which is measured immediately after the accident by paramedics or at a hospital to assess consciousness. Individuals with traumatic brain injuries may qualify for catastrophic impairment status and the higher medical rehabilitation and attendant compensation depending on the outcome of GOS-E assessments.

BACKGROUND

The new definition is based on the recommendations of the Superintendent's Report on the Definition of Catastrophic Impairment with modifications to permit the combining of mental and physical impairments using the Sixth Edition of the American Medical Association Guides to the Evaluation of Permanent Impairment.

Following the release of the 2015 Ontario Budget on April 23rd, 2015, the Ministry of Finance posted a summary of the proposed changes to the definition of catastrophic impairment on the Regulation Registry on May 14, 2015. The public and stakeholders had 45 days (until June 29th) to comment on the proposed changes.

Amendments To the Catastrophic Impairment Definition

The revised definition came into effect for accidents on or after June 1, 2016. The definition was amended in the following ways:

- **Paraplegia or quadriplegia**: updated definition with detailed criteria and new diagnostic tools;
- **Total and permanent loss of use of an arm or leg**: revised definition with new detailed criteria and diagnostic tools dealing with impairment of ambulatory mobility;

- **Total blindness**: updated definition adding reference to 20/200 visual acuity threshold (legal blindness);
- **Traumatic brain injury:** For adults, the definition eliminated the Glasgow Coma Scale (GCS) and adopted the GOS-E as the clinical assessment tool; for children under age 18 adopts use of King's Outcome Scale for Childhood Head Injury (KOSHI) as the clinical assessment tool and allows for automatic CAT designation of children in certain cases;
- **For mental and behavioural impairments**: modifications made to the criteria used in the current definition; and
- **Combination of impairments**: For other physical impairments not listed retain current definition and adopt new diagnostic tool (6th Edition of AMA Guides to the Evaluation of Permanent Impairment) for quantifying mental and behavioural impairments for the purposes of combining.

Past Reports and Consultations on the Definition of Catastrophic Impairment:

Superintendent's Report on the Definition of Catastrophic Impairment (the Report) 2011

The Report was provided to the Minister of Finance on December 15, 2011. The Report is largely based on the work of an independent Catastrophic Impairment Expert Panel (the Expert Panel). Recommendations in the Report are based on current scientific knowledge consistent with the government's evidence-based direction in the health care system outlined in the 2012 Ontario Budget. The Report's recommendations were aimed to update and improve the fairness, predictability, and efficiency of the process for determining catastrophic impairment.

MOF Consultation on Report - 2012

The Report was then released by MOF for public comment in June 2012. Fourteen written submissions were received by the end of August 2012. Insurers generally supported the recommendations with some modifications. The Ontario Trial Lawyers Association and the Alliance of Community and Medical Providers were opposed to the changes proposed in the Report. The strongest opposition was to the recommendation to prohibit combining physical and psychological impairments.

2013 Ontario Budget and Roundtable Consultation

The 2013 Ontario Budget announced that the government would conduct further study and consultation on amending the definition of catastrophic impairment. MOF hosted a roundtable with key stakeholders on March 15, 2013 in an attempt to identify areas of consensus. A summary of the discussions from the roundtable was sent to participants in August 2013.

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November 17, 2016

THIRD QUARTER 2016 AUTO INSURANCE RATES

What happened to auto insurance rates for the third quarter (July to September) of 2016?

SUGGESTED RESPONSE

- **Rates increased on average by 1.5% for the third quarter of 2016 for the entire market, based on rates approved or ordered by FSCO.**

- **Rates approved by FSCO have decreased by approximately 8.35% on average since August 2013 saving Ontarians approximately $874M in premiums.**

- **The government is committed to working with the Advisor on Auto Insurance, David Marshall, and the industry for further improvements and reform to the system to pass on savings to consumers while reducing costs and ensuring accident victims get the care they need.**

- **Over the last three years the government has introduced a number of important and necessary reforms to the auto insurance systems to reduce costs and lower rates for Ontario's more than 9.5 million drivers.**

- **Reforms introduced in 2015 demonstrate that the government remains committed to achieving lower rates while providing consumers with choices to buy the coverage that best suits them.**

CURRENT STATUS

FSCO Quarterly Rate Change Web Posting

FSCO posted the rate changes for the third quarter of 2016 on its website on October 14, 2016. Twenty-five insurers representing 63.56% of the market based on premium volume had rates approved in the quarter.

FSCO approved 26 private passenger automobile insurance rate filings and reviewed 3 annual rate capping information filings in respect of a previously approved rate filing during the third quarter of 2016. Out of 26 filings, two were bi-annual Usage Based Insurance Program filings, and one was for rating rule changes. Rate changes ranged from -5.37% to +12.03%. The impact on the total market is +1.5%.

This follows an average increase of 0.33% for the second quarter of 2016, an average decrease of 3.07% for the first quarter of 2016, an average decrease of 0.15% for the fourth quarter of 2015, and an average decrease of 0.50% for the third quarter of 2015.

FSCO's web posting provides the average rate change approved for individual companies that had a rate filing approval in the quarter.

Cumulative Rate Changes

The rate changes approved for the entire market are as follows:

Year	Rate Change	Cumulative Rate Change
2004	-10.60%	-10.60%
2005	-2.43%	-13.03%
2006	-1.27%	-14.30%
2007	+0.55%	-13.75%
2008	+5.59%	- 8.16%
2009	+8.77%	+0.61%
2010	+6.18%	+6.79%
2011	+4.83%	+11.62%
2012	-0.26%	+11.36%
2013	-4.79%	+6.57%
2014	-1.44%	+5.13%
2015	-1.00%	+4.13%
2016 – Q1	-3.07%	+1.06%
2016 – Q2	+0.33%	+1.39%
2016 – Q3	+1.50%	+2.89%

Impact on Consumers

It is unlikely that an individual policyholder would receive the posted average rate change for the entire market as:

- The rate change listed for an insurer is the average for all the policyholders insured. Some individual rates may potentially go up and some rates may go down, as insurers respond to claims costs for different groups of policyholders based on the insurer's risk classification system.

- An individual consumer’s rates will depend on where the consumer lives, the type of car being insured, and other risk characteristics.

- The rates charged to a consumer are based on the effective date of the consumer’s auto insurance policy and do not change mid-term, even if an insurer has had a rate change approved.

- Prior rate approvals continue to affect premiums upon renewal. Most consumers have annual automobile insurance policies. Rate changes are cumulative and could affect a policyholder's premium, depending on the effective date of the rate change and the renewal date.

The effective dates of a rate change are important due to both legislative and operational requirements. To protect consumers and allow them an opportunity to shop the market without interrupting their insurance coverage, the Insurance Act requires insurers to provide a policyholder with 30 days’ notice and to provide brokers with 45 days’ notice of the insurer’s intention to not renew the policy or to renew the auto insurance policy on varied terms (which includes changes to the premium on renewal). Also, insurers need time to make the necessary changes in their information technology systems, so the rates approved by FSCO usually take effect a few months after the date they were approved.

FSCO will continue to ensure that insurance companies’ rate changes are reasonable and justified, and that the rates insurers charge are balanced with their ability to meet their future claims costs.

BACKGROUND

On May 2, 2013, the government tabled the 2013 Ontario Budget (Bill 65) with a Cost and Rate Reduction Strategy that targeted a reduction of auto insurance rates by 15% on average. On August 23, 2013, the government announced a timeline of 2 years for the target 15% average reduction, with an average 8% target reduction by August 2014. Successive budgets in 2014 and 2015 have also introduced reforms aimed at reducing costs and fraud in the auto insurance system.

The government has implemented a series of cost reduction measures since the 2010 auto insurance reforms, including accident benefit procedural changes, adjustments to the auto insurance product and broader systemic changes.

The first quarter of 2016 reflected rate approvals related to automobile insurance reforms enacted by the government to reduce costs and fraud in the auto insurance system. These changes, effective June 1, 2016, included reductions to the compulsory standard Accident Benefits coverage, with the continued ability for consumers to buy enhanced optional benefits. Changes also included a prohibition on rating for certain minor accidents that occur on or after June 1, 2016. Insurers were required

to submit automobile insurance reform filings to FSCO by October 30, 2015 to reflect these changes. Rate filings approved in the first quarter resulted in a decrease of 3.07%.

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TD INSURANCE GROUP

What action has FSCO taken against TD Insurance Group for charging consumers rates higher than the approved rates for auto insurance?

SUGGESTED RESPONSE

- **On May 19, 2016, FSCO imposed nine Administrative Monetary Penalties for a total of $260,000 against four TD Insurance Group companies for charging rates higher than the approved rates for auto insurance.**

- **All auto insurance rates must be approved by Ontario's insurance regulator – the Financial Services Commission of Ontario (FSCO).**

- **The use of un-approved rates is a serious matter, and FSCO has taken the appropriate actions needed to ensure the insurers correct their errors.**

- **Customers who were overcharged by their insurance companies have been reimbursed.**

- **The insurance companies involved have implemented new controls in their systems to ensure similar rating errors do not happen again.**

- **FSCO is committed to protecting consumers in the sectors it regulates, including the auto insurance sector.**

- **When FSCO finds evidence of non-compliance with legislation or regulations, FSCO will take the appropriate regulatory action.**

- **Regulatory action could range from a letter of caution, administrative monetary penalties, suspension or revocation of a license, and/or charges under the Provincial Offences Act.**

CURRENT STATUS

On May 19, 2016, FSCO imposed nine Administrative Monetary Penalties (AMPs) against four subsidiaries of Meloche Monnex, Inc. (a subsidiary of Toronto-Dominion Bank) for charging rates higher than the approved rates for auto insurance: Security National Insurance Company, Primmum Insurance Company, TD Home and Auto Insurance Company and TD General Insurance Company.

Customers whose auto insurance policies were overcharged were issued refunds by their insurance companies. Some customers were undercharged based on approved rates but the insurance companies did not seek reimbursement and absorbed the loss.

The Superintendent imposed a total of $260,000 in Administrative Monetary Penalties on these four insurers for contraventions of the Automobile Insurance Rate Stabilization Act, 2003.

BACKGROUND

Security National Insurance Company

During the period between July 2009 and June 2013, Security National overcharged 68 policy holders $33,473 due to a postal code rating error.

The average overcharge per affected policyholder was $492. An AMP of $25,000 was imposed against Security National.

During the period between April 2011 and March 2013, Security National overcharged 88 policyholders $122,750, due to an incorrect group discount being applied.

The average overcharge per affected policyholder was $1,394. An AMP of $25,000 was imposed against Security National.

During the period between August 2011 and November 2014, Security National overcharged 5,159 policyholders $2,327,650. The overcharge occurred due to errors in Security National's rating system.

The average overcharge per affected policyholder was $451. An AMP of $50,000 was imposed against Security National.

When Security National discovered these errors, the insurer notified FSCO and made changes to their system. Security National has refunded the overcharged policyholders.

Primmum Insurance Company

During the period between July 2009 and June 2013, Primmum overcharged 27 policyholders $14,110. The overcharge occurred due to a postal code error in Primmum's rating system.

The average overcharge per affected policyholder was $522. An AMP of $25,000 was imposed against PIC.

During the period between August 2011 and November 2014, Primmum overcharged 636 policyholders $241,573. The overcharge occurred due to errors with Primmum's rating system.

The average overcharge per affected policyholder was $379. An AMP of $50,000 was imposed against Primmum.

When Primmum discovered these errors, the insurer notified FSCO and made changes to their system. Primmum has refunded the overcharged policyholders.

TD General Insurance Company

During the period between July 2009 and June 2013, TD General Insurance overcharged 13 policyholders $4,198. The overcharge occurred due to a postal code error within TD General Insurance's rating system.

The average overcharge per affected policyholder was $323. An AMP of $5,000 was imposed against TD General Insurance.

During the period between August 2011 and November 2014, TD General Insurance overcharged 13 policyholders $4,944. The overcharged occurred due to errors with TD General Insurance's rating system.

The average overcharge per affected policyholder was $380. An AMP of $5,000 was imposed against TD General Insurance.

When TD General Insurance discovered these errors, the insurer notified FSCO and made changes to their system. TD General Insurance has refunded the overcharged policyholders.

TD Home And Auto Insurance Company

During the period between July 2009 and June 2013, 22 policyholders were overcharged $14,712. The overcharge occurred due to a postal code error within TD Home and Auto Insurance Company’s rating system.

The average overcharge per affected policyholder was $668. An AMP of $25,000 was imposed against TD Home and Auto Insurance Company.

During the period between August 2011 and November 2014, 67 policyholders were overcharged $36,402. The overcharged occurred due to errors with TD General Insurance's rating system.

The average overcharge per affected policyholder was $543. An AMP of $50,000 was imposed against TD Home and Auto Insurance Company.

When TD Home and Auto Insurance Company discovered these errors, the insurer notified FSCO and made changes to their system. TD Home and Auto Insurance has refunded the overcharged policyholders.

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From: CIU, Current Issues (MOF)

To: Christine L. Anderson (MOF); Vinod Armoogum (MOF); Birks, Ryan (MOF); Scott Blodgett (MOF); Christian Bode (MOF); Tomasz Bugajski; Peter Burston (FSCO); Buttivant, James (MOF); Maria Cece (MOF); Sybille Chan (MOF); Charest, Sylvie (MOF); Susanne Coles (MOF); Crnekovic, Caroline (MOF); Daube, Nicholas (MOF); Antonio D"Avanzo (MOF); Jenarra DeSouza (MEDTE/MRI); David Dijong (MOF); Svetlana Diomin (MOF); Joyce Dong (MGS); Stephen Donnelly (MOF); Edwards, Malon (FSCO); Cheryl Frost (MOF); Robert Gates (MOF); Eric Gent (MOF); Linda Gibney (MOF); Gobeil, Diana (MOF); Colin Graham (MOF); Kathy Grant (MOF); Hancock, Julia (MOF); Hatami, Darius (MOF); Hay, Jenna (MOF); Eric Henry (MOF); Jeffrey Hernandez (MOF); Hess, Reet E. (MOF); Felicia Hewitt (MOF); Judith Hipolito (MOF); Alena Ingram (MOF); Kelsey Ingram (OPO); Ize-Dukuze, Marilyn (MOF); Jackson, Kelly (MOF); Bridget Jeanes (MGS); Louis Kalikow (MOF); Lauren Kappius (MOF); Kelly, Christopher (MOF); Andrew Kovarcsik (MOF); Robert Krmpotic (MOF); Pauline Kwan (MOF); Ronald Kwan; Lam, Linda (MOF); Ann Langleben (MOF); Mina Lee (MOF); Rosemay Lee (MOF); Lynch, Kelleher (MOF); Shemin Manji (MOF); Mario Manov (FSCO); Aida Masnikosa (MOF); Mavroyannis, Maria (MOF); Gadi Mayman; Francis McKenna (MOF); David McLean (MOF); PLFD Media (MOF); Elizabeth Mendes (MOF); Tammy Mepstead (MOF); Natale Milana (MOF); Wes Mills (MOF); Moore, Brynne (MOF); Rebecca Morier (MOF); Marianne Nguyen (MCYS); Kimberley Niece (MOF); Yui Nishimoto (MOF); Natalie Nolan (MOF); Andrew Ogilvie (MOF); Papadopoulos, Maria (MOF); Jiyoung Park (MOF); Christopher Pearce (MOI); Pichelli, Jason (MOF); Marc Pichette (MOF); Rob Pomykacz (MOF); Shameez Rabdi (MOF); Cathy Rae (MOF); Anjali Raghunath (MOF); Andrew Reid (MOF); Samantha Reynolds (MGS); Anne Rogers (MOF); Giulio Rubini (MOF); Sadruddin Salman (MOF); Maria Sapounas (MOF); Katrina Sehr (MOF); Sia, Riana (MOF); Vivienne Skoberne (MOHLTC); Mark Smith (MOF); Peter Spadoni (MCYS); Nicole Stewart (MCS); Garima Talwar (TCU); Ghufran Tarin (MOF); Geeta Thachil (MOF); Wallace, Julia (MOF); Charles Whitfield (MOF); Cheryl Whittam (MOF); Wing-Yee Wong (MOF); Lynsey Wynberg; Michelle Wyton (MOF); Gwendolynne Young (ENE); Christina Zhang; Sahar Ziaey (MOF)

Subject: November 3 CINs

Date: Thursday, November 03, 2016 1:31:19 PM

Attachments: niagara_gaming_bundle4.doc
FAO_fall_economic&fiscal_outlook1.docx.doc

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1. FAO’s Fall 2016 Economic and Fiscal Outlook
2. OLG Modernization in Niagara

November 3, 2016

OLG MODERNIZATION IN NIAGARA

What is the status of the Ontario Lottery and Gaming Corporation's (OLG's) modernization in Niagara?

SUGGESTED RESPONSE

- **OLG has a transparent and fair procurement process underway to modernize lottery and gaming in Ontario by involving private service providers in the operation of its day-to-day lottery and gaming businesses.**

- **OLG has added Casino Niagara and Fallsview Resort Casino to its modernization procurement process.**

- **On October 13, 2016, OLG released the Request for Pre-Qualifications (RFPQ) for the Niagara Bundle.**

- **OLG expects to begin the RFP process in the coming months.**

- **Through including the Niagara Casinos in modernization, OLG will continue to contribute to local economic development in the City of Niagara community.**

If pressed about why OLG is including the Niagara Casinos in modernization:

- **Modernizing the Niagara Casinos will generate positive financial return to the Province and will ensure greater consistency in Ontario's gaming market.**

- **It also makes the future capital costs of developing, expanding, improving and maintaining the Niagara Casinos the responsibility of a service provider, freeing up public funds for key priorities.**

If asked about the City of Niagara resolution to postpone the RFPQ:

- **The integrity of the OLG modernization process is of the utmost importance.**

- **As a Crown Agency, OLG follows provincial procurement rules.**

- **The timing of the RFPQ corresponds with the need to secure a new operator in 2018. In addition, sufficient time is required for the RFP process.**

<u>If asked about the Niagara Falls Entertainment Centre:</u>

- **In June 2016, OLG released an RFP to select proponents to design, build, finance and maintain a new Entertainment Centre in the City of Niagara Falls.**

- **Moving forward with the Niagara Falls Entertainment Centre will improve the value of the Niagara Gaming Bundle. It will also contribute to the community by helping to create jobs and encouraging economic growth in the region.**

CURRENT STATUS

On October 25, 2016, Niagara City Council unanimously passed a motion requesting that “the Niagara RFPQ process be postponed until the City's goals and objectives are incorporated and the City is treated as a key partner in the process”. The City has expressed concern that the RFPQ is designed to primarily promote revenue generation, not job retention/creation, investment and economic development.

The RFPQ is currently scheduled to close in December 2016. OLG is reviewing the City’s resolution and considering next steps.

BACKGROUND

On April 1, 2016, OLG announced it is adding the Niagara Casinos, which includes Fallsview Casino Resort and Casino Niagara, to its modernization procurement process.

On June 30, 2016, OLG released the RFP to select a proponent to design, build, finance and maintain a new Entertainment Centre in Niagara Falls. The future service provider selected to operate the Niagara Gaming Bundle will also be responsible for operating the future entertainment centre.

On October 13, 2016, OLG released the Niagara Gaming Bundle RFPQ. OLG expects to begin the RFP process for the Niagara Gaming Bundle in the coming months. It may take up to three years to procure a new service provider.

Prepared by: Stephanie Smith, 416-327-6538 / Heather Persad, 416-325-8741
Gaming Policy Branch
Date Prepared: September 1, 2016
Date Updated: November 3, 2016
Approved by: Tanya Watkins, A/Director
November 3, 2016

File Name: n:\fall16\alcohol&gaming\gaming\niagara_gaming_bundle4

November 3, 2016

FAO'S FALL 2016 ECONOMIC AND FISCAL OUTLOOK

On November 3, 2016, the FAO released its fall 2016 assessment of Ontario's medium-term economic and fiscal outlook. The FAO revised down its projection for Ontario real and nominal GDP growth compared to the outlook presented in its spring report and projects budget deficits in all years between 2016-17 and 2020-21.

SUGGESTED RESPONSE

- **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 as we pursue our fiscal plan.**

- **The government is committed to balancing the budget by 2017–18 and remaining balanced in 2018–19.**

- **In fact, the recently released Public Accounts of Ontario for 2015-16 showed that we beat our annual deficit target again, for the seventh year in a row.**

- **Even though the FAO is projecting deficits in all years between 2016–17 and 2020–21, he does acknowledge that the "government has a broad range of policy options that could improve [its] fiscal position."**

- **The FAO also recognizes that the Ontario economy posted strong real GDP growth over the second half of 2015 and into the first quarter of 2016.**

- **This shows that our plan to invest in the Ontario economy is working.**

- **The government will continue to monitor economic and fiscal developments and will provide an update on the Province's economic outlook and fiscal plan in the upcoming Ontario Economic Outlook and Fiscal Review.**

- **We know there is hard work ahead to balance the budget by 2017–18. We will make the tough but necessary decisions while investing in priority areas that support economic growth and prosperity.**

If asked about Pensions:

- **For the *Public Accounts of Ontario for 2015-16*, the government regulated a one-time change to accommodate the Auditor General's interpretation of the accounting treatment for pension assets of Ontario's pension plans.**

- **Even with the impact of the pension adjustment, the *Public Accounts of Ontario for 2015-16* showed that we beat our annual deficit target again, for the seventh year in a row.**

- **To help inform the future accounting treatment of pension plans, the Province is establishing an advisory panel to review the matter. Recommendations from the panel will inform the *2017 Budget*.**

If asked about Debt:

- **Going forward, we will reduce Ontario's net debt-to-GDP ratio to its pre-recession level.**

- **An October 2016 Moody's report stated that even though Ontario's "debt issuance will continue, the growth of debt will be reduced and will be lower than that of revenue growth over the medium-term, resulting in a declining trend for the province's debt burden." They also believe that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."**

If asked about Path to Balance:

- **We are beating our fiscal targets and eliminating the deficit through a fair and balanced approach.**

    - **The *2016 Budget* focused on strategic investments that will stimulate economic growth and job creation.**
    - **At the same time, our government continues to manage growth in program spending. We have achieved this by finding new and more efficient ways to deliver the best value for Ontarians.**
    - **In addition, our government continues to focus on combatting the underground economy, as well as provide a level playing field for businesses.**

KEY QUOTES FROM FAO REPORT

"The government has reaffirmed its commitment to achieve balance in 2017-18 and maintain balance going forward. However, based on the FAO's analysis of the economic outlook and the government's current fiscal position, Ontario's budget would be expected to remain in deficit over the next five years. Achieving and maintaining balance will likely require additional measures to raise revenue or reduce expense." (pg. 2)

"The FAO is projecting Ontario budget deficits of $5.2 billion in 2016–17 and $2.6 billion in 2017–18. …This fiscal projection reflects the legislated change in the accounting treatment of jointly sponsored pension plans in 2015–16, which the FAO assumes will remain in place over the outlook." (pg. 15)

"The FAO forecast adopts the government's outlook for program spending, adjusted for new fiscal developments [electricity cost relief, new child care spaces, and pension adjustment]." (pg. 23)

"There are a number of material risks that could impact Ontario's fiscal position…At the same time, the government has a broad range of policy options that could improve the fiscal position, including the sale of additional public assets beyond announced targets, or by applying new revenues (from cap and trade or new federal transfer) to existing program spending." (pg. 24)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Thursday, November 3, 2016, which assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

REPORT SUMMARY

The report is divided into two main chapters:

1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2020, and includes a discussion of potential risks.
2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2020-21.

The fall report incorporates economic and fiscal information released since the FAO's spring 2016 report. This includes:

- New economic data that impacts the revenue and interest on debt outlooks;
- New spending commitments from the Speech from the Throne; and
- Information from the Public Accounts of Ontario for 2015-16.

Economic Outlook

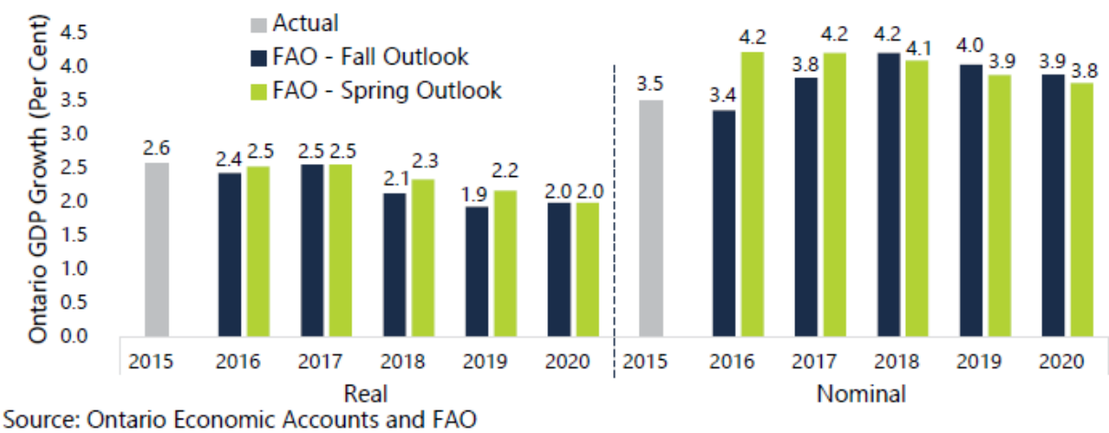
The FAO has modestly revised down its forecast for Ontario real GDP growth, on average, over the 2016 to 2020 period relative to its spring forecast. The nominal GDP growth forecast for 2016 and 2017 was revised down, but modest upward revisions were made to 2018-2020.

The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall growth over the next several years.

The FAO forecast for real GDP growth is similar to the preliminary *FES forecast* between 2016 and 2019.

The FAO believes the balance of the risks to the economic outlook is tilted to the downside. (p. 14)

The FAO's Revised Economic Outlook



Source: Ontario Economic Accounts and FAO

1 See Appendix for detailed forecast tables.
2 'Economic and Fiscal Outlook, Assessing Ontario's Medium Term Prospects, Spring 2016', Financial Accountability Office of Ontario.

Fiscal Outlook

The FAO has indicated that "the outlook for budget balance (excluding the accounting change) has deteriorated moderately" in 2017-18, compared to the spring report. (p. 16)

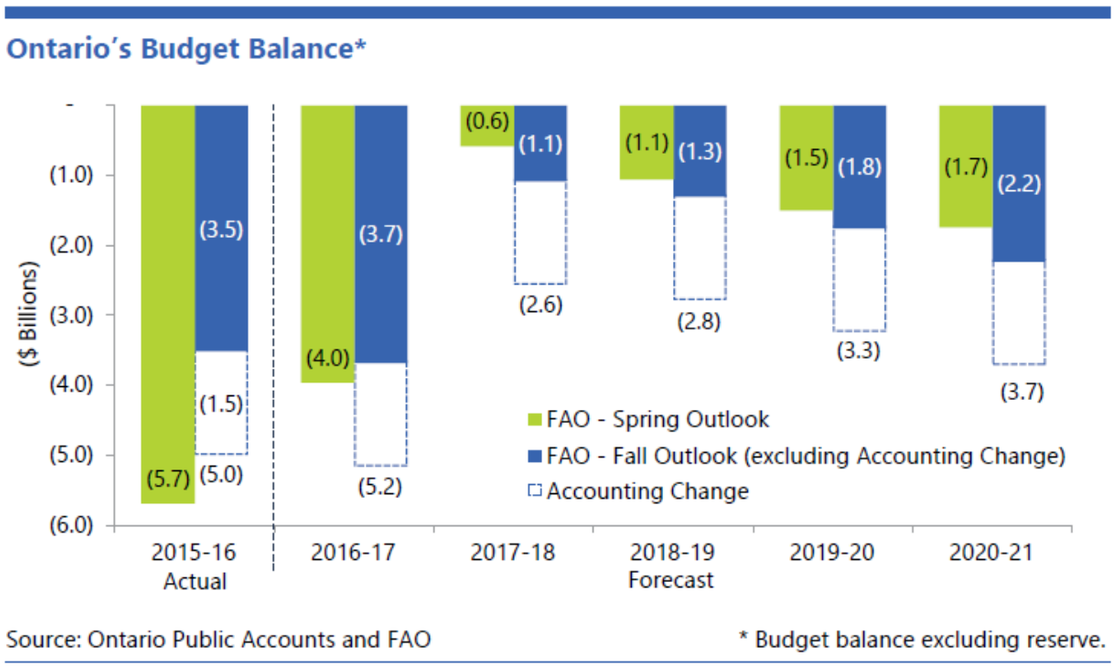
The FAO is currently projecting Ontario budget deficits of $3.7 billion in 2016-17 and $1.1 billion in 2017-18 (excluding the reserve), which represents a slight improvement in the deficit in 2016-17, but a modest deterioration in 2017-18 from the FAO's spring outlook report. This compares to 2016 Budget projections of a $3.3 billion deficit in 2016-17 and a $1.1 billion surplus in 2017-18, excluding the reserve.

The FAO has also forecasted projections for Ontario's budget deficits based on the change in the accounting treatment of pensions from the Public Accounts. It carries forward the associated $1.5 billion increase in program expense through to 2020-21, resulting in projected budget deficits of $5.2 billion in 2016-17 and $2.6 billion in 2017-18 (excluding the reserve).

Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate as a result of increases in program spending and interest on debt payments that exceed revenue growth – similar to the spring report.

Note that the 2016 Budget did not publish a fiscal outlook for 2019-20 and 2020-21.

That FAO believes that “achieving and maintaining budget balance will likely require additional measures to raise revenue or reduce expense.”



Key factors driving change since the spring 2016 FAO report include (p. 16):

- Results from the 2015-16 Public Accounts, which reported an 8.3% increase in tax revenues in 2015-16 (strong PIT revenue);
- New spending commitments, announced in the Speech from the Throne (child care spaces and HST rebate for household, farms and small businesses electricity bills);
- Lower than expected economic growth in 2016 and 2017, which moderately dampens the expected growth in tax revenues; and
- Lower interest on debt payments.

Change in the Budget Balance since the FAO's Spring Outlook

($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Spring Outlook Budget Balance	**-4.0**	**-0.6**	**-1.1**	**-1.5**	**-1.7**
2015-16 Public Accounts[1]	0.4	0.6	0.7	0.7	0.7
Throne Speech Announcements	-0.3	-1.4	-1.8	-1.8	-1.8
Updated economic and demographic data	-0.4	-0.8	-0.6	-0.6	-0.8
Interest on Debt[2]	0.4	0.8	0.9	0.9	0.9
Other[3]	0.2	0.3	0.4	0.5	0.5
Total	**0.3**	**-0.5**	**-0.2**	**-0.3**	**-0.5**
Updated Budget Balance	**-3.7**	**-1.1**	**-1.3**	**-1.8**	**-2.2**
Accounting Change	-1.5	-1.5	-1.5	-1.5	-1.5
Updated Budget Balance with Accounting Change	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**

1 Excludes $1.5 billion impact of the change in the accounting treatment of jointly sponsored pension plans.
2 Captures impact of lower interest rates as well as changes in borrowing.
3. Reflects a change in the forecasting methodology for income from government business enterprises, which is now based on the 2016 Budget projection to 2018-19.

Note: Positive values indicate improvement in budget balance (i.e. lower deficit). Numbers may not add due to rounding.
Source: FAO

Revenue Assumptions

From 2015-16 to 2018-19, FAO projects 2.9% total revenue growth and 2.4% taxation revenue growth. This is down from comparable growth rates in the FAO spring outlook of 3.2% and 2.8% respectively. Key changes since the spring report include:

- Higher taxation revenues reported in the 2015-16 Public Accounts which raise tax revenues over the outlook, and
- A weaker economic outlook, especially for corporate profits.

The FAO revenue outlook does not carry all of the increase in personal income tax revenues forward over the medium term, but assumes that $600 million represents one time income shifting, from 2016 to 2015, among high income earners related to an increase in the top federal rate in 2016.

The FAO largely adopts *2016 Budget* assumptions for 2016-17 for federal transfers, net income from government business enterprises and other non-tax revenues. The FAO outlook does, however, assume declining Equalization payments over the medium term.

FAO revenue growth assumptions are lower than the *2016 Budget* which projected average annual growth between 2015-16 and 2018-19 of 3.9% for total revenue and 3.4% for taxation revenue.

Expense Assumptions

Similar to its spring report, the FAO assumes the same program expense outlook as the 2016 Budget up to 2018-19, but adjusts this outlook upwards to incorporate (p. 5-6):

- The estimated impact of new initiatives announced in the Speech from the Throne (Child Care Expansion and Electricity Price Mitigation).

- An annual increase of $1.5 billion due to the change in pension asset accounting, carried forward from 2015-16 Public Accounts.

This results in average annual growth in program expense of 2.2% between 2015-16 and 2018-19.

The FAO also projects that program spending will increase by an average of 3.4% per year between 2018-19 and 2020-21, which the FAO argues is in line with population growth and price inflation.

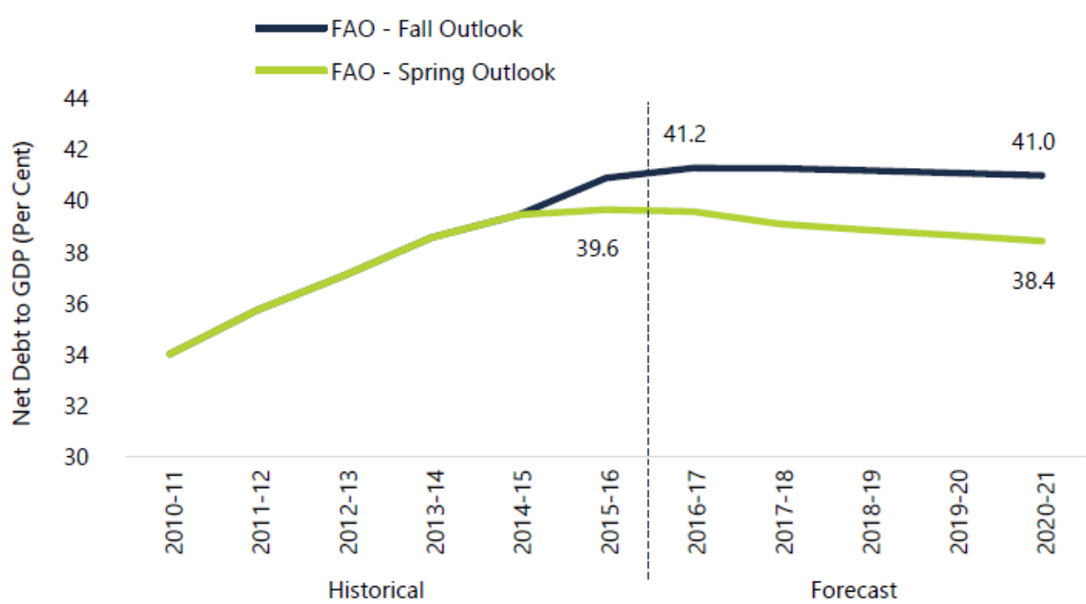
The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 2.0% over the next three years, rising to $11.6 billion by 2018-19. Over the last two years of the outlook, the FAO projects that IOD will increase more sharply, rising by 5.5% per year on average. The FAO's current outlook for IOD is $0.8 billion lower each year on average than the spring projection, reflecting the FAO's revised outlook for lower interest rates. (p. 21)

Debt Outlook

The FAO expects Ontario's net debt to rise by $64 billion over the next five years to $370 billion in 2020-21 – an increase of about $20 billion from the FAO's spring outlook – as a result of carrying forward the impact of the change in pension asset accounting included in the *2015-16 Public Accounts*, capital spending for infrastructure and cumulative deficits. (p. 2)

The accounting change as well as slower growth in nominal GDP, results in a higher net debt-to-GDP ratio relative to the FAO spring outlook and the *2016 Budget* forecast; 41.2% in 2016-17 declining to 41.0% by 2020-21.

Ontario's Net Debt to GDP Ratio



Source: Ontario Public Accounts and FAO

Risks and Policy Options

The FAO notes the following risks to Ontario's fiscal plan (p. 23):

- Actual economic growth could be weaker than projected, lowering tax revenues;
- Further program expense increases – citing that the "government has increased planned spending for 2017-18 in each of the last three budgets".

Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets and applying new revenue (cap and trade and federal transfers) to existing program spending commitments. (p. 24)

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Office of the Budget
Date Prepared: November 3, 2016
Approved by: Selena Esmail, Director
November 3, 2016

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APPENDIX A – Detailed Comparison of Outlooks

Comparison: 2016 Budget Fiscal Outlook and the Fall FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								15-16 to	18-19 to	15-16 to
$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	18-19	20-21	20-21
2016 Budget										
Revenue	118.5	128.4	130.6	137.7	141.9			3.4%		
Expense										
Program Expense	118.2	122.4	122.1	124.2	127.6			1.4%		
Interest on Debt	10.6	11.0	11.8	12.5	13.1			6.1%		
Total Expense	128.9	133.4	133.9	136.6	140.7			1.8%		
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(3.3)**	**1.1**	**1.2**					
Reserve	-	-	1.0	1.1	1.2					
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**(4.3)**	**0.0**	**0.0**					
Net Debt	284.6	305.2	308.3	316.9	326.8					
Change										
Revenue	-	-	*(0.7)*	*(1.8)*	*(2.2)*					
Expense	-	-								
Program Expense	-	-	*1.8*	*3.0*	*3.3*					
Interest on Debt	-	-	*(0.6)*	*(1.2)*	*(1.5)*					
Total Expense	-	-	*1.2*	*1.9*	*1.8*					
Surplus/(Deficit) Excl. Reserve	**-**	**-**	***(1.9)***	***(3.7)***	***(4.0)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	**-**	**-**	***n/a***	***n/a***	***n/a***					
Net Debt	-	-	*10.2*	*13.6*	*17.0*					
FAO Fall 2016 Report										
Revenue	118.5	128.4	129.9	135.9	139.7	144.2	149.1	2.9%	3.3%	3.0%
Expense										
Program Expense	118.2	122.4	123.9	127.2	130.9	135.3	139.9	2.3%	3.4%	2.7%
Interest on Debt	10.6	11.0	11.2	11.3	11.6	12.2	12.9	1.9%	5.5%	3.3%
Total Expense	128.9	133.4	135.1	138.5	142.5	147.5	152.8	2.2%	3.6%	2.8%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	305.2	318.5	330.5	343.8	356.8	369.7			
Pension Adjustment	-	1.5	1.5	1.5	1.5	1.5	1.5			
Surplus/(Deficit) Excl. Reserve and Pension	**(10.3)**	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**			

Note: Numbers may not align with report due to rounding.

Comparison: Spring FAO Outlook Compared to Fall FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	15-16 to 18-19	18-19 to 20-21	15-16 to 20-21
FAO Spring 2016 Report										
Revenue	118.5	126.4	129.7	135.7	139.1	143.6	148.6	3.2%	3.5%	3.3%
Expense										
Program Expense	118.2	120.9	122.1	124.2	127.6	132.0	136.5	1.8%	3.4%	2.5%
Interest on Debt	10.6	11.2	11.6	12.1	12.5	13.1	13.8	3.7%	5.1%	4.3%
Total Expense	128.9	132.1	133.7	136.3	140.1	145.1	150.3	2.0%	3.6%	2.6%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.7)**	**(4.0)**	**(0.6)**	**(1.1)**	**(1.5)**	**(1.7)**			
Reserve	-	n/a	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	296.3	308.2	317.4	328.3	339.4	350.2			
Change										
Revenue	-	*2.0*	*0.2*	*0.2*	*0.6*	*0.6*	*0.5*			
Expense	-	-								
Program Expense	-	*1.5*	*1.8*	*3.0*	*3.3*	*3.3*	*3.4*			
Interest on Debt	-	*(0.2)*	*(0.4)*	*(0.8)*	*(0.9)*	*(0.9)*	*(0.9)*			
Total Expense	-	*1.3*	*1.4*	*2.2*	*2.4*	*2.4*	*2.5*			
Surplus/(Deficit) Excl. Reserve	**-**	***0.7***	***(1.2)***	***(2.0)***	***(1.7)***	***(1.8)***	***(2.0)***			
Reserve	-	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*			
Surplus/(Deficit)	**-**	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***			
Net Debt	-	*8.9*	*10.3*	*13.1*	*15.5*	*17.4*	*19.5*			
FAO Fall 2016 Report										
Revenue	118.5	128.4	129.9	135.9	139.7	144.2	149.1	2.9%	3.3%	3.0%
Expense										
Program Expense	118.2	122.4	123.9	127.2	130.9	135.3	139.9	2.3%	3.4%	2.7%
Interest on Debt	10.6	11.0	11.2	11.3	11.6	12.2	12.9	1.9%	5.5%	3.3%
Total Expense	128.9	133.4	135.1	138.5	142.5	147.5	152.8	2.2%	3.6%	2.8%
Surplus/(Deficit) Excl. Reserve	**(10.3)**	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	284.6	305.2	318.5	330.5	343.8	356.8	369.7			

Note: Numbers may not align with report due to rounding.

From:	Bonnie Lemcke
To:	Christina Zhang
Cc:	Ken Kandeepan; Mike Manning; James Devine
Subject:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx
Date:	Tuesday, October 04, 2016 12:49:28 PM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Hi Christina,

I made a couple of small additions to Q57 and 58 (see attached). Please wait until Mike/Jim confirm the last point before we send.

1. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

2. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how

much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Bonnie

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is

different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. What does this mean for the Fall Economic Statement?

We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. Is this Public Accounts or not?

From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?

Response TBC

11. Why are you doing this today, four days after you announced the delay?

Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for

users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the

Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit

rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings,

playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From:	Erica Wieder
To:	"Carlos.Pineda@CIBC.com"
Cc:	Bartlett, Doug - Debt Capital Markets; Gadi Mayman; Christina Zhang
Subject:	Prov. of Ontario - Porvenir meeting
Date:	Wednesday, October 19, 2016 6:18:53 PM
Attachments:	Four Pager - ONT.pdf ONT IR Presentation.pdf

Hi Carlos,

Please find attached our presentation and a four-pager for Friday's meeting with Porvenir. We would appreciate if you could print off copies for those attending.

Thank you,

Erica

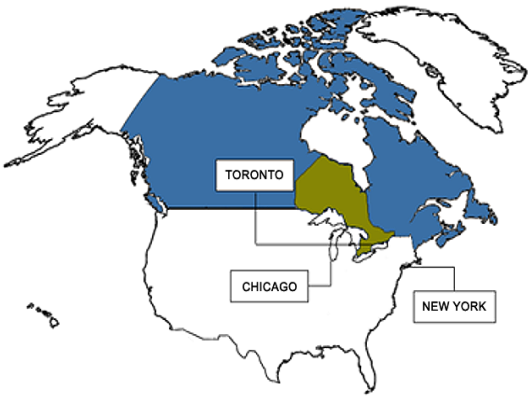
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Province of Ontario Investor Presentation

www.ofina.on.ca October 18, 2016

Ontario Overview

- The Province of Ontario is located in a prime area with close ties to the United States
- Ontario had a population of 14.0 million in 2016 and nominal GDP of $747 billion in 2015, representing roughly 40 per cent of Canada
- Ontario has a diverse economy, with extensive manufacturing, financial and business services and a smaller energy sector compared to the rest of Canada. It has direct taxation powers and stable growth
- Services account for 77 per cent of the overall economy
- The government is dedicated to a fiscally sound approach to managing the Province's finances, and is committed to balancing the budget by 2017–18
- Building on previous commitments, Ontario is investing about $160 billion in public infrastructure over 12 years, starting in 2014–15



Borrowing Program

($ Billions)	Current Outlook 2016–17	2016 Budget Outlook 2017–18	2016 Budget Outlook 2018–19
Deficit/(Surplus)	4.3	0.0	0.0
Investment in Capital Assets	11.2	12.4	14.2
Debt Maturities	21.2	17.5	22.1
Other Requirements	(6.8)	(6.5)	(7.3)
Total Funding Requirement	**29.8**	**23.3**	**28.8**
Other Adjustments	(3.4)	–	–
Preborrowing from 2015–16	(2.0)	–	–
Total Long-Term Public Borrowing	**24.4**	**23.3**	**28.7**

Note: Numbers may not add due to rounding.

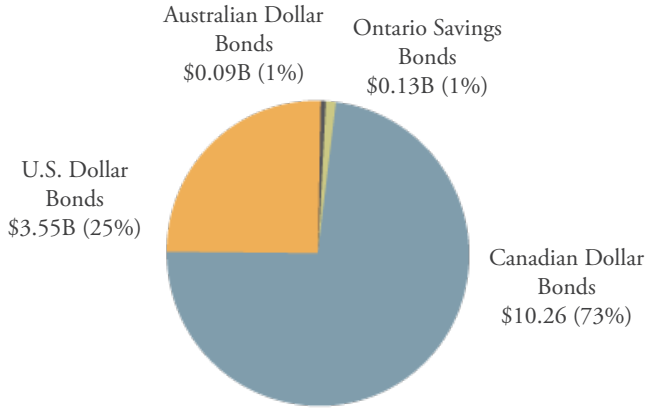
Ontario Bonds

- Exceptional secondary market liquidity with a wide range of offerings provide extensive investment and trading opportunities across the yield curve
- Attractive spreads provide opportunities for investors to achieve higher returns
- Benchmark Canadian provincial borrower
- 75 per cent target for Canadian dollar borrowing with likely issuance in U.S. dollars and Euros
- Green Bond Program

Current Ratings (Long-Term/Short-Term)	
Moody's	Aa2 / P-1
Fitch	AA- / F1+
DBRS	AA (low) / R-1(mid)
S&P	A+ / A-1+

Diverse Borrowing Program 2016–17

As of October 18, 2016, borrowing completed for 2016–17 totalled $14.0 billion.



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Long-Term Borrowing

- Long-term borrowing for 2016–17 is forecast to be $24.4 billion, this would be the Province's lowest borrowing program since 2007–08. As of October 18, 2016, borrowing completed for 2016–17 was $14.0 billion
- Given the low interest rates experienced in recent years, Ontario has been proactive in extending the term of its borrowing program. It was 14.2 years for 2015–16, up from 8.1 years in 2009–10

Fiscal Year	Canadian Dollar ($Billions)	Foreign Currencies ($Billions)	Total Long-Term Borrowing ($Billions)	Weighted-Average Term (years)
2009–10	21.4 (49%)	22.4 (51%)	**43.8**	**8.1**
2010–11	23.5 (59%)	16.4 (41%)	**39.9**	**12.8**
2011–12	28.4 (81%)	6.5 (19%)	**34.9**	**13.0**
2012–13	26.4 (72%)	10.2 (28%)	**36.6**	**12.4**
2013–14	29.4 (82%)	6.6 (18%)	**36.0**	**13.6**
2014–15	31.4 (79%)	8.4 (21%)	**39.8**	**14.1**
2015–16	25.8 (81%)	6.2 (19%)	**32.1**	**14.2**
2016–17	10.4 (74%)	3.6 (26%)	**24.4**	**15.0**
2017–18 Outlook	Target: at least 75%	Target: at most 25%	**23.3**	–
2018–19 Outlook			**28.7**	–

Note: Numbers may not add due to rounding. 2016-17 figures as of October 18, 2016.

Canadian Dollar Issuance

- Ontario accounted for 59.4 per cent of Canadian provincial bond trading in 2015 and as of September 30, 2016, Ontario accounts for 14.0 per cent of the FTSE TMX Universe Bond Index, 19.8 per cent of the FTSE TMX Mid Bond Index, and 19.8 per cent of the FTSE TMX Long Bond Index
- Regular issuance of 5-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size (28 syndicated issues in 2015–16)
- Large order procedure initiated in 2011 (48 issues totalling approximately $26.4 billion)

Canadian Dollar Benchmark Bonds (as of October 18, 2016)

	Ontario		Canada	
5 year (old)	4.20% June 2, 2020	$10.80B	0.75% March 1, 2021	$13.80B
5 year (new)	1.35% March 8, 2022	$1.00B	0.75% September 1, 2021	$15.00B
10 year (old)	2.60% June 2, 2025	$13.60B	2.25% June 1, 2025	$13.10B
10 year (new)	2.40% June 2, 2026	$6.75B	1.50% June 1, 2026	$13.50B
Long (old)	2.90% December 2, 2046	$14.70B	4.00% June 1, 2041	$15.80B
Long (new)	2.80% June 2, 2048	$2.55B	3.50% December 1, 2045	$16.40B

Foreign Issuance

- The Province regularly accesses foreign markets to diversify its borrowing program and expand its investor base

U.S. Dollar Borrowing

- The U.S. dollar market remains an important source of funding for Ontario with $6.0 billion issued in 2015–16, and $3.6 billion U.S. dollars issued so far in 2016–17

Euro Borrowing

- The Euro Market is also an important source of funding for Ontario, with $4.5 billion issued in the last 2 years

Green Bonds

- In 2014, Ontario successfully launched a Green Bond program, with an inaugural global 4-year Canadian dollar bond of $500 million. Ontario launched a second global 7-year Canadian dollar bond of $750 million in 2016 and will look to issue its third green bond later this fiscal year
- The inaugural bond helped fund a clean transportation project, while the second green bond was expanded to include a basket of eight clean transportation, energy efficiency and conservation projects

Ontario's Green Bonds:

- Carry the full faith and credit of the Province of Ontario
- Rank pari passu with Ontario's other bonds and are payable without any preference or priority
- Are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects
- Help finance transit and other environmentally friendly projects across the Province

Assurances and Features:

- Ontario's Green Bond Framework was developed in consultation with the Center for International Climate and Environmental Research –Oslo (CICERO)
- Ontario's Green Bond program aligns with the Green Bond Principles maintained by the International Capital Markets Association
- An assurance audit is performed by the Auditor General of Ontario verifying amounts allocated to selected projects and tracking the amount of Green Bond proceeds

Risk Management and Short-Term Borrowing

	Exposure	Policy Limit
Foreign Exchange	0.33%	5.0%
Floating Rate	10.60%	35.0%

Of outstanding debt, as of September 30, 2016.

- Ontario's maximum floating rate exposure is 35 per cent and its maximum foreign exchange exposure is 5 per cent of debt issued for provincial purposes
- Liquid reserves as of October 7, 2016 were $18.1 billion
- As of October 7, 2016, capacity for short-term borrowing: $48.0 billion authorized and $20.4 billion outstanding, leaving $27.6 billion available

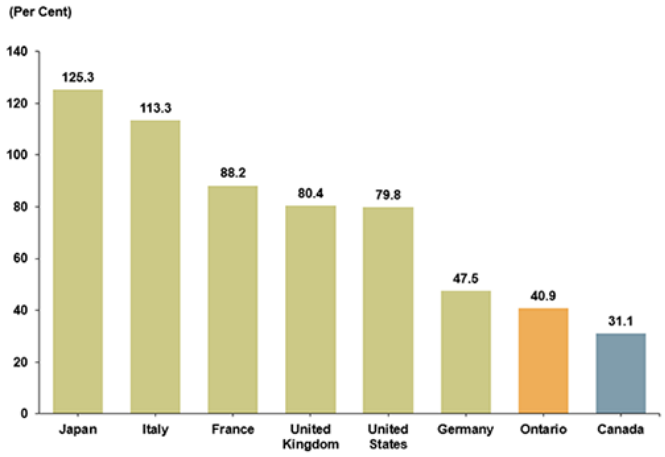
Fiscal Plan and Outlook

- The government is projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and continued balance in 2018–19. Average annual growth in revenue between 2014–15 and 2018–19 is projected to be 4.6 per cent and average annual growth in program spending between 2014–15 and 2018–19 is forecast to be 1.9 per cent
- The Province remains on track with its multi-year government asset sales initiative to generate $5.7 billion
- The medium-term revenue outlook also includes projected cap-and-trade proceeds from the auctioning of carbon allowances beginning in 2017. The current estimate for 2017 is $1.9 billion, with $478 million occurring in 2016–17

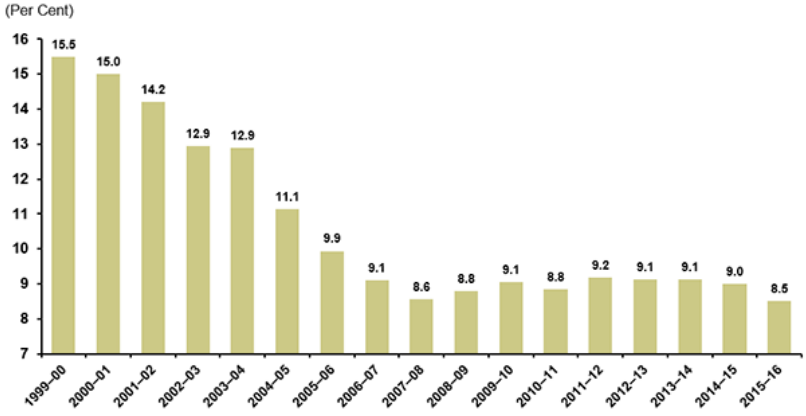
Medium-Term Fiscal Plan and Outlook ($ Billions)	Actuals							Current Outlook	2016 Budget Outlook	
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Revenue	**96.3**	**107.2**	**109.8**	**113.4**	**115.9**	**118.5**	**128.4**	**130.6**	**137.7**	**141.9**
Expense										
Programs	106.9	111.7	112.7	112.2	115.8	118.2	122.4	122.1	124.2	127.6
Interest on Debt	8.7	9.5	10.1	10.3	10.6	10.6	11.0	11.8	12.5	13.1
Total Expense	**115.6**	**121.2**	**122.7**	**122.6**	**126.4**	**128.9**	**133.4**	**133.9**	**136.6**	**140.7**
Reserve	–	–	–	–	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	**(19.3)**	**(14.0)**	**(13.0)**	**(9.2)**	**(10.5)**	**(10.3)**	**(5.0)**	**(4.3)**	**0.0**	**0.0**

- The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent
- The IOD-to-revenue ratio is the lowest it has been since 1990-91 and is forecast to remain low through the outlook period in 2018–19

2015–16 Net Debt-to-GDP



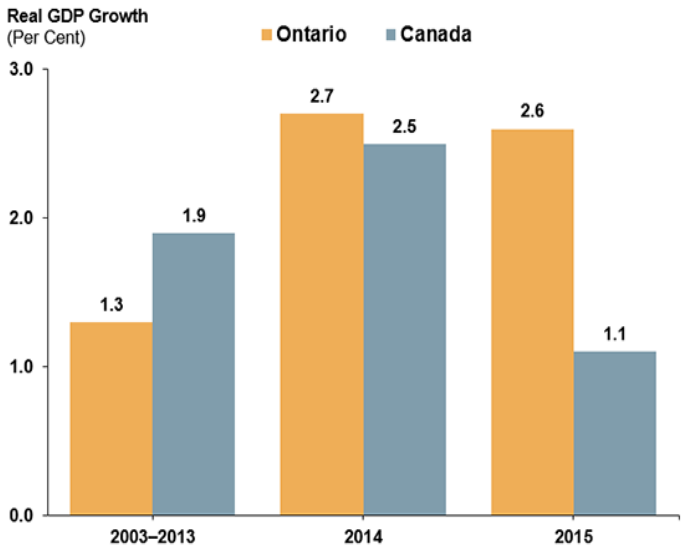
Interest on Debt (IOD)-to-Revenue



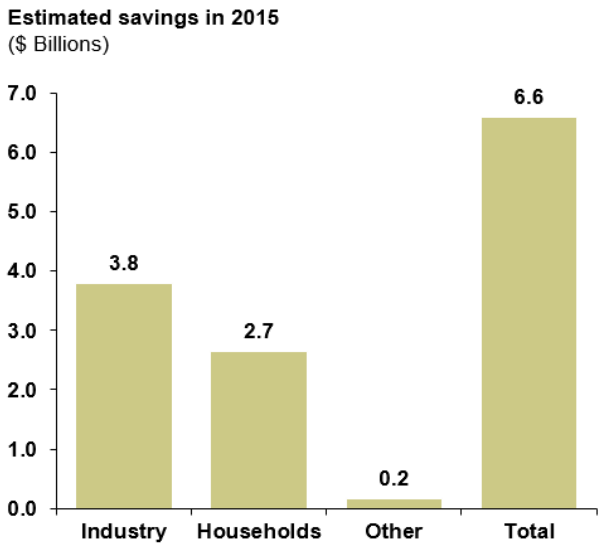
Economic Update

- Ontario's real GDP increased by 2.6 per cent in 2015, following up on 2.7 per cent growth in 2014
- Lower oil prices translated into lower retail prices for gasoline, diesel and other refined products in 2015, benefiting consumers and businesses in Ontario. Ontario consumers and businesses saved an estimated $6.6 billion in 2015
- Lower oil prices, a more competitive Canadian dollar and a healthy U.S. economy are projected to lead to a broadening of economic growth in Ontario as exporters invest to meet ongoing demand
- The Province is forecasting continued growth in Ontario's economy, with real GDP projected to rise by 2.2 per cent annually, on average, over the 2016 to 2019 period
- Ontario's marginal effective tax rate on new business investment (a comprehensive measure of the tax burden on new business investment) has been cut in half since 2009, making the Province a significantly more attractive location for business investment

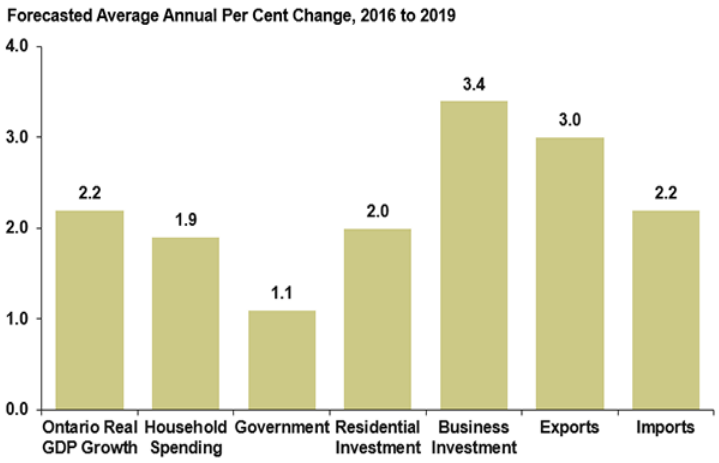
Ontario Real GDP Growth Outpacing Canada



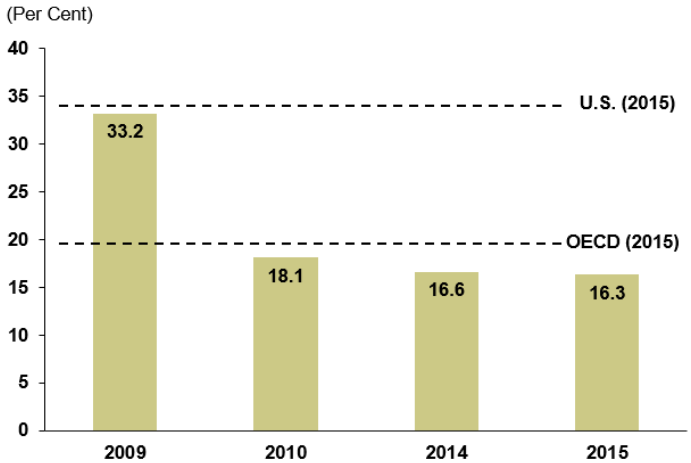
Lower Oil Prices Providing Savings to Consumers and Businesses



Ontario Economic Growth Expected to Broaden



Cutting Ontario's Marginal Effective Tax Rate



- In the last three years, Ontario has twice been named the top destination for foreign direct investment in North America and is consistently ranked as Canada's leader in attracting foreign direct investment by fDi Intelligence, the research division of the Financial Times Ltd.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

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Investor Presentation

October 2016

Ontario Financing Authority
www.ofina.on.ca

Overview

- **Ontario Bonds**
  - Exceptional liquidity with a wide range of bond offerings
  - Attractive spreads provide opportunities for investors to achieve higher returns
- **Ontario's Economic and Fiscal Summary**
  - A diverse economy with a well-educated and highly skilled workforce, generating almost 40 per cent of the national GDP
  - The government is committed to balancing the budget in 2017–18, while continuing to make investments in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs
  - Ontario is also projecting to remain balanced in 2018–19
  - Building on previous commitments, Ontario is investing about $160 billion in public infrastructure over 12 years, starting in 2014–15

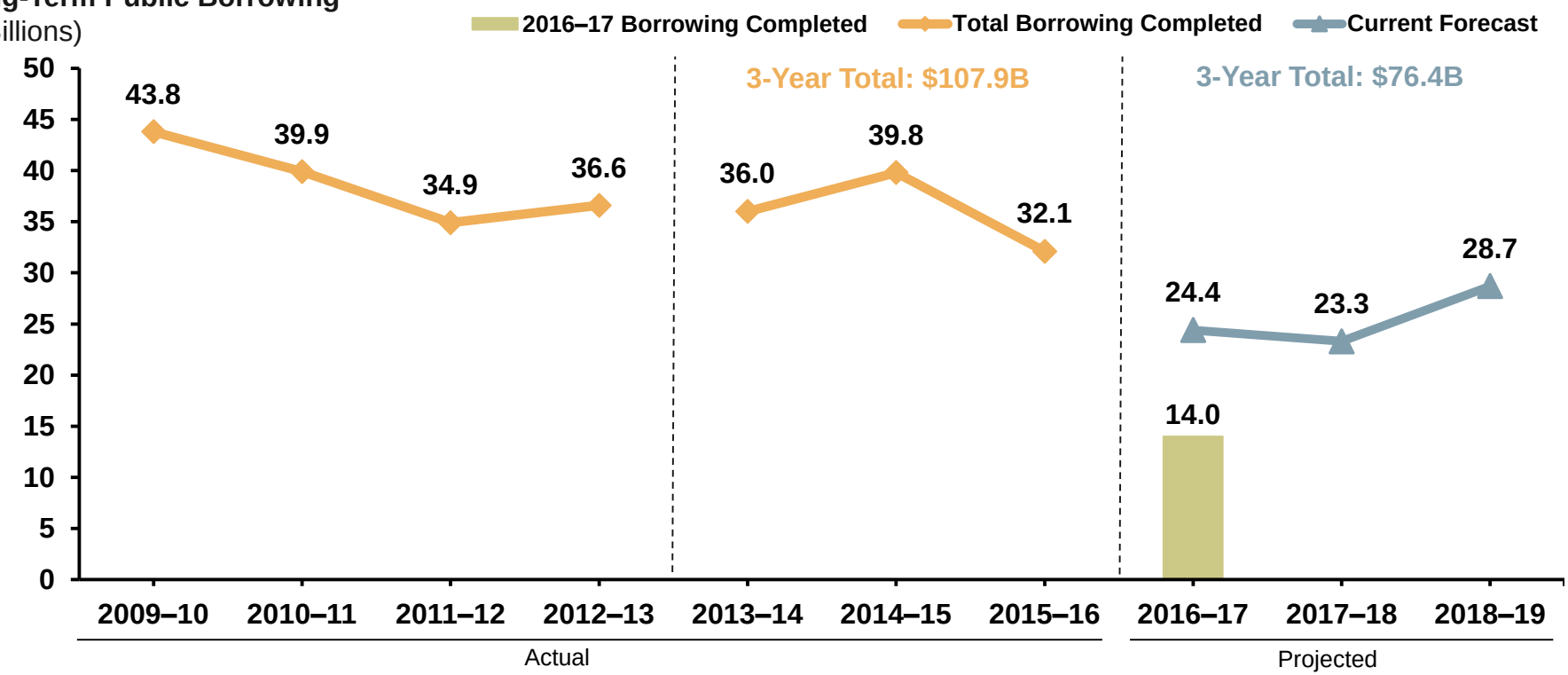
Ontario Bonds

- **Bond Offerings**
  - Wide range of offerings provide extensive investment and trading opportunities across the yield curve
- **Liquid**
  - Strong liquidity in secondary markets and large benchmark issues
- **Attractive Spreads**
  - Ontario spreads give investors opportunities to enhance their returns
- **Safe**
  - Largest Canadian provincial economy by GDP and population
  - A diverse economy with direct taxation powers and stable growth
- **Borrowing Program**
  - Long-term borrowing for 2016–17 is forecast to be $24.4 billion, this would be the Province's lowest borrowing program since 2007–08

Total Long-Term Public Borrowing Forecasts

- The Province plans to borrow $76.4 billion over the three-year period in the medium-term borrowing outlook, down from the $107.9 billion borrowed over the previous three-year period. This $31.5 billion decline in borrowing reflects the impact of lower deficits, prefunding, term extension and the Province's asset optimization activities.

Long-Term Public Borrowing
($ Billions)



	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Foreign	51%	41%	19%	28%	18%	21%	19%	26%	-	-
Domestic	49%	59%	81%	72%	82%	79%	81%	74%	-	-
Weighted-Average Term (Years)	8.1	12.8	13.0	12.4	13.6	14.1	14.2	15.0	-	-

Source: Ontario Financing Authority. 2016–17 borrowing completed is as of October 18, 2016.

Domestic Borrowing Program

- Narrow Bid-Ask Spreads
- Large and diverse domestic underwriting syndicate of 12 dealers make active markets in Ontario bonds
- Ontario accounts for 14.0 per cent of the FTSE TMX Universe Bond Index, 19.8 per cent of the FTSE TMX Mid Bond Index and 19.8 per cent of the FTSE TMX Long Bond Index[1]
- Ontario bonds accounted for 59.4 per cent of Canadian provincial bond trading in 2015[2]
- Regular issuance of 5-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size
- Large Order Procedure set up to accommodate large investors

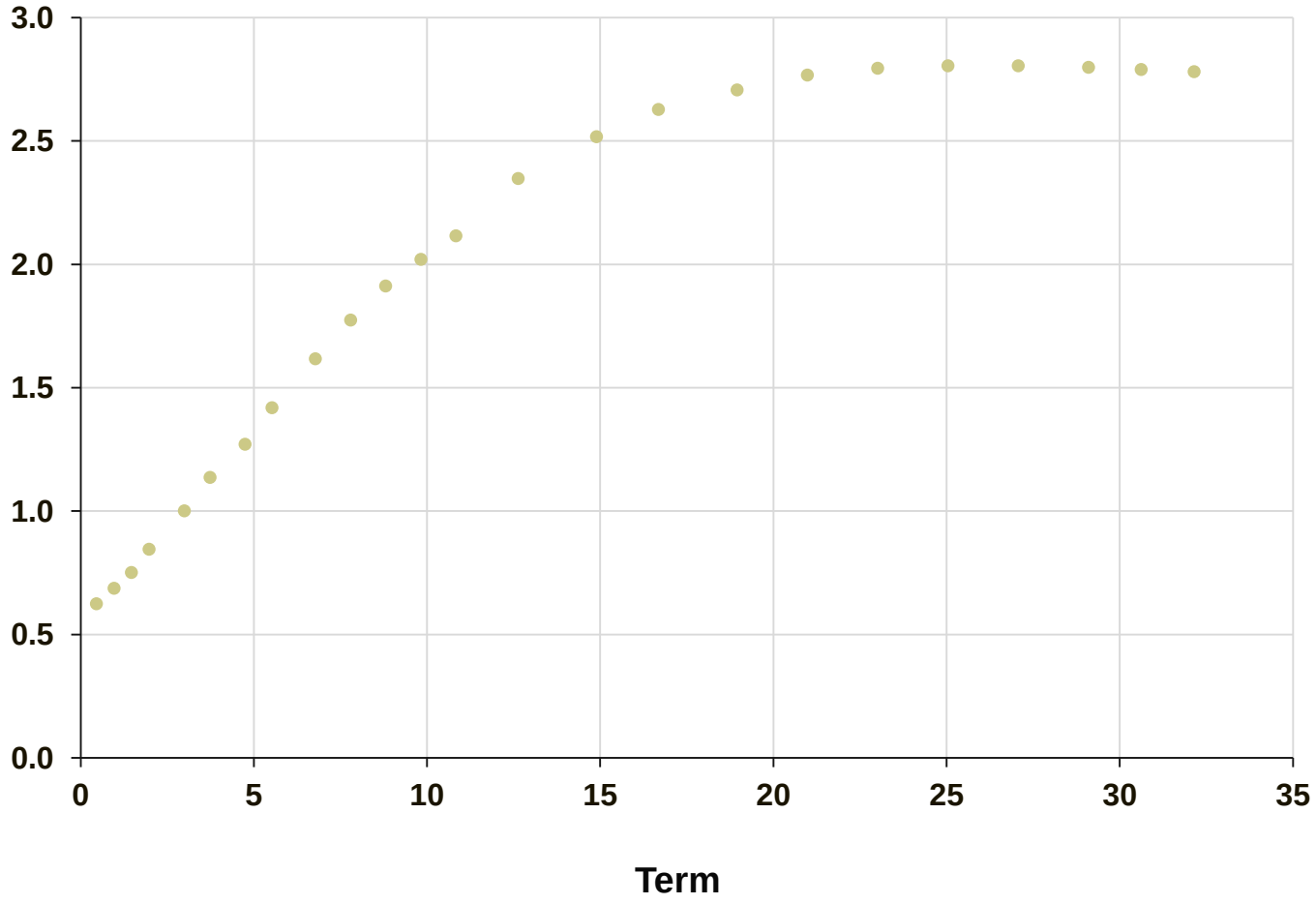
Canadian dollar Benchmark Bonds
(As of October 18, 2016)

	Ontario		Canada	
5 yr (old)	4.20% June 2, 2020	$10.80B	0.75% March 1, 2021	$13.80B
5 yr (new)	1.35% March 8, 2022	$1.00B	0.75% September 1, 2021	$15.00B
10 yr (old)	2.60% June 2, 2025	$13.60B	2.25% June 1, 2025	$13.10B
10 yr (new)	2.40% June 2, 2026	$6.75B	1.50% June 1, 2026	$13.50B
Long (old)	2.90% December 2, 2046	$14.70B	4.00% June 1, 2041	$15.80B
Long (new)	2.80% June 2, 2048	$2.55B	3.50% December 1, 2045	$16.40B

[1] PC Bond, as of September 30, 2016.
[2] Investment Industry Regulatory Organization of Canada (IIROC) Market Trade Reporting System - Provincial Bond Total Trading.

Canadian Domestic Bond Offerings over $1 Billion

Yield to Maturity
(Per Cent)



Types of Offerings

Syndicated bonds	Medium-term notes
Floating rate notes	Bond auctions
Real return bonds	Ontario Savings Bonds

Note: As of October 18, 2016.

U.S. Dollar Borrowing

- Fixed and floating rate Global Bonds in 3, 5, 7 and 10 years, with benchmark size of C$1B plus
- Fixed and floating U.S. Medium-Term Notes (USMTN) in 2-10 years
- Total U.S. denominated bonds of C$45.4 billion outstanding as of March 31, 2016
- U.S. commercial paper (1-270 days), with about C$6.8B outstanding as of October 7, 2016

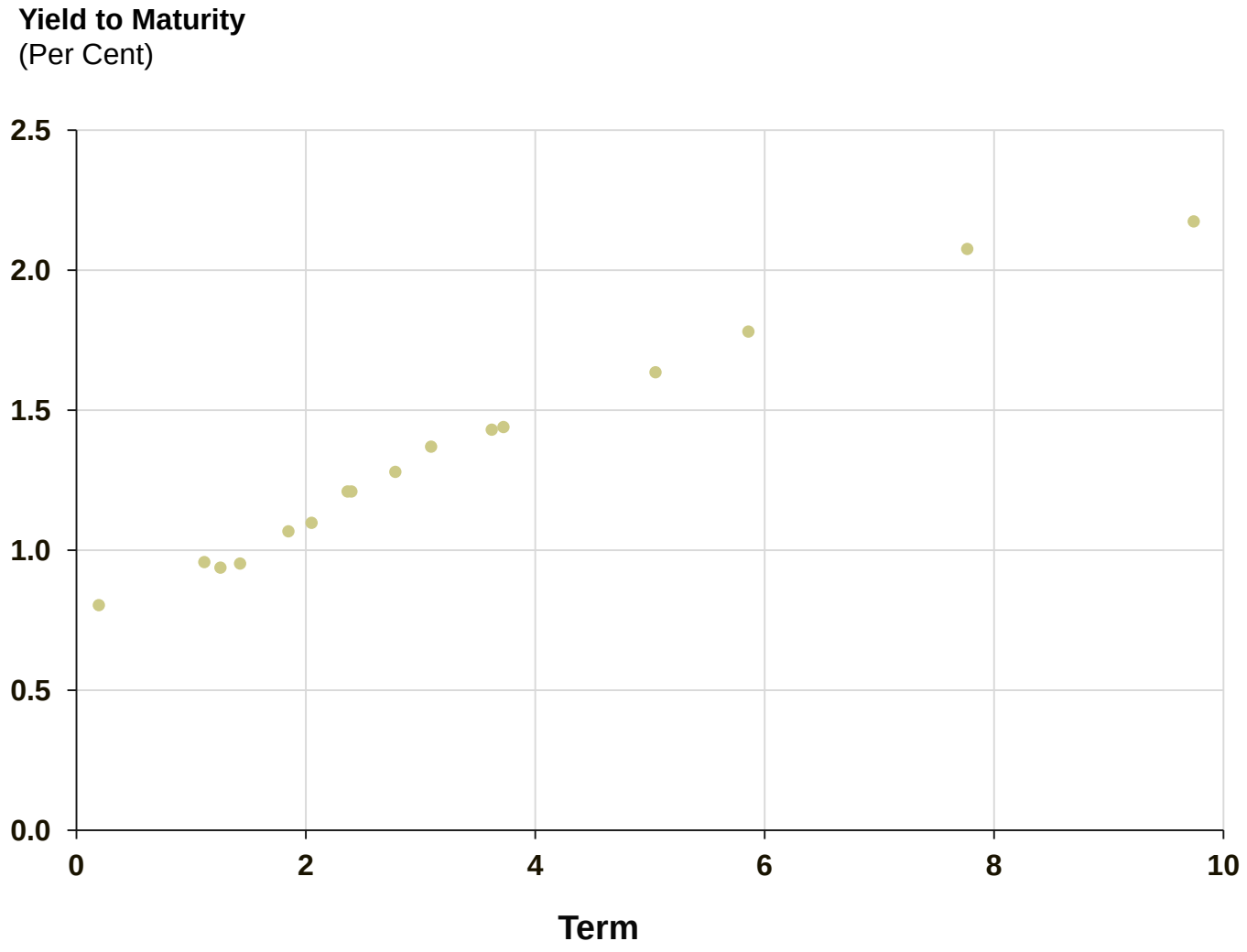
- Global Bonds and USMTNs are offered in SEC-registered format
- Financial information filed by the Province is available to investors electronically through the SEC's EDGAR system
- Eligible Ontario bonds are included in a number of bond market indices and sub-indices including BofA Merrill Lynch, Citi and Barclays Capital
- Notes issued under the Province's U.S. Commercial Paper Program are exempt from SEC registration under the U.S. Securities Act

Recently Issued U.S. Dollar Bonds

Maturity	Issue Details			
	Issue Date	Maturity Date	Amount (U.S.$)	Coupon
3 years	June 17, 2016	June 17, 2019	1.75 billion	1.25%
10 years	April 27, 2016	April 27, 2026	1.00 billion	2.50%
5 years	May 21, 2015	May 21, 2020	2.00 billion	1.875%
7 years	September 11, 2014	September 10, 2021	2.00 billion	2.50%

Sources: Bloomberg, Ontario Financing Authority.

U.S. Dollar Bond Offerings over $1 Billion



Types of Offerings

Fixed & floating rate Global Bonds in 3, 5, 7 and 10 years

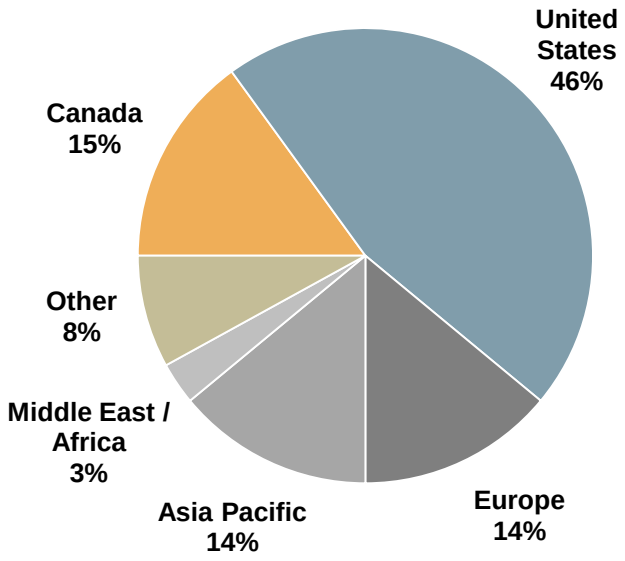
Fixed & floating U.S. Medium-Term Notes (USMTN) in 2-10 years

Note: As of October 18, 2016.

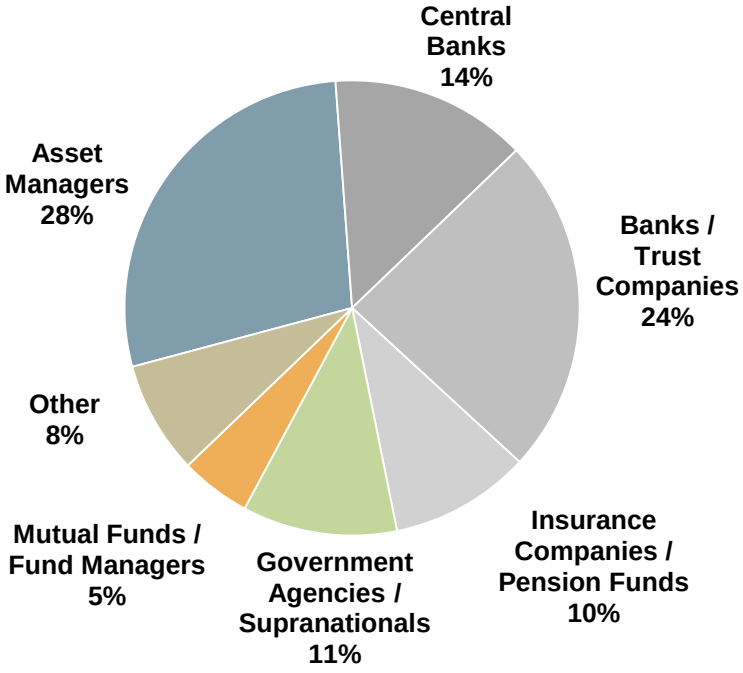
U.S. Dollar Market

- Core market with annual issuance since 1991
- Right-sized bond issues to meet demand
- U.S. dollar investors diversified both geographically and by type

USD by Geography[1]



USD by Investor Type[1]



[1] Since 2010.

Source: Ontario Financing Authority.

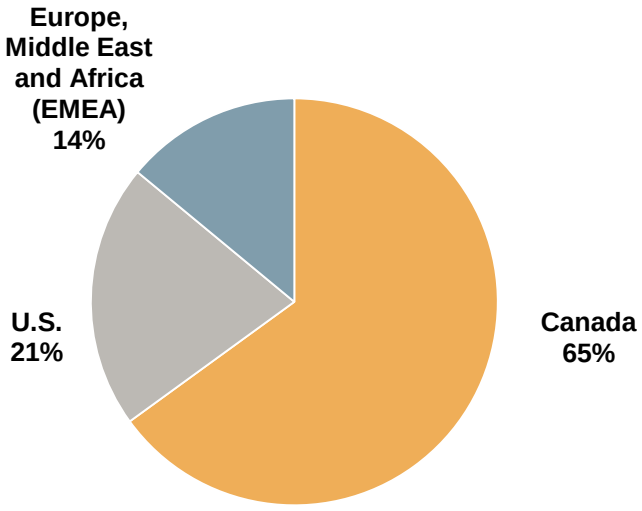
Ontario's Green Bond Initiative

- Ontario's Green Bonds are being used to help finance transit and other environmentally friendly infrastructure projects across the province
- Ontario's Green Bond framework specifies five categories of eligible projects:
  - Clean Transportation (e.g. public transportation)
  - Energy Efficiency and Conservation (e.g. building efficiency improvement)
  - Clean Energy and Technology (e.g. smart grid infrastructure and energy storage)
  - Forestry, Agriculture and Land Management (e.g. sustainable forest management)
  - Climate Adaptation and Resilience (e.g. flood protection and storm water management)
- Assurances:
  - Ontario's Green Bond Framework has been developed in consultation with the Center for International Climate and Environmental Research – Oslo (CICERO)
  - An assurance audit is performed by the Auditor General of Ontario verifying amounts allocated to selected projects and tracking the amount of Green Bond proceeds
- Ontario's issues under the Green Bond program will carry the full faith and credit of the Province of Ontario with no project risk
- The Province issued its second Canadian dollar Green Bond in January 2016 and will look to issue its third Green Bond later this fiscal year

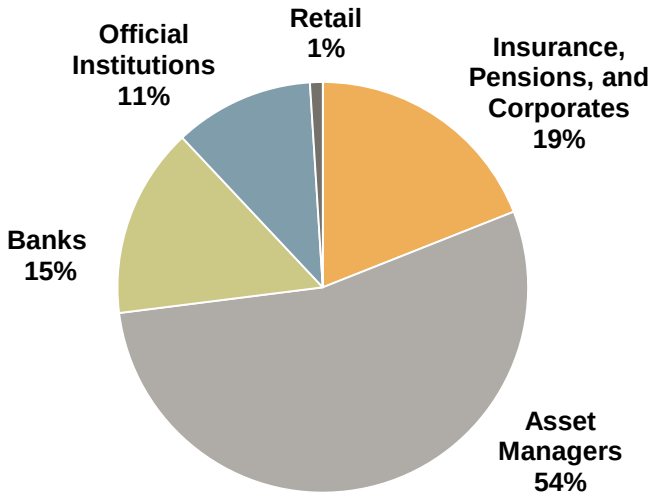
Ontario's Second Green Bond Deal Highlights

- On January 22nd, 2016, the Province of Ontario successfully launched its second Global CAD Green Bond, with a 7-year, $750 million issue
- Demand was strongly driven by investors with Green mandates and/or UN PRI signatories, representing 70 per cent of overall sales
- There was strong international interest, with 35 per cent of investor participation from the U.S. and Europe
- The issue was also made available to retail investors through Canadian financial institutions
- Global offering format was used to leverage and facilitate international investor interest with strong trading liquidity supported by Ontario's Canadian dollar syndicate
- Eight eligible projects have been selected to receive funding, with an emphasis on clean transportation and energy efficiency and conservation

Distribution by Geographic Region



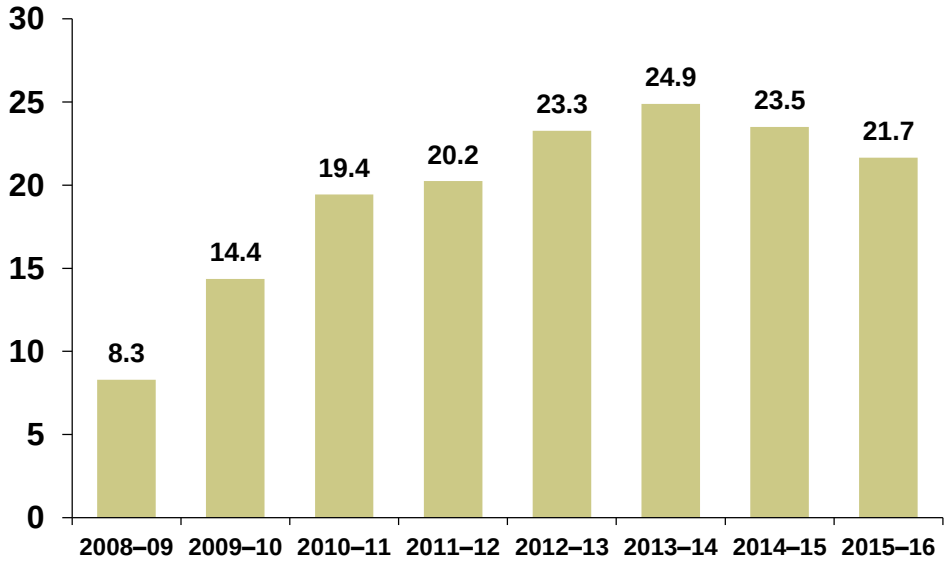
Distribution by Investor Type



Liquidity and Short-Term Borrowing Capacity

- Liquid reserves (cash and short-term investments) are maintained at levels sufficient to ensure the Province is able to meet its short-term financial obligations
- Ontario treasury bills and U.S. commercial paper are very well received in the money markets and provide additional borrowing capacity if required
- Large capacity for short term borrowing: $48.0 billion authorized and $27.6 billion available

Average Unrestricted Liquid Reserve Levels
($ Billions)



Note: Chart dates represent fiscal years ending March 31st.
Source: Ontario Financing Authority.

($ Billions)	C$ T-Bill Program	U.S.$ Commercial Paper Program	Total
Currency	Canadian Dollars	U.S. Dollars	-
Maturity	1 day-3 years*	1-270 day(s)	-
Authorized	C$33.0	C$15.0	C$48.0
Outstanding	C$13.6	C$6.8	C$20.4
Available	C$19.4	C$8.2	C$27.6

**Regular issuance of 3M, 6M and 1Y T-Bills*
Note: As of October 7, 2016. Numbers may not add due to rounding.

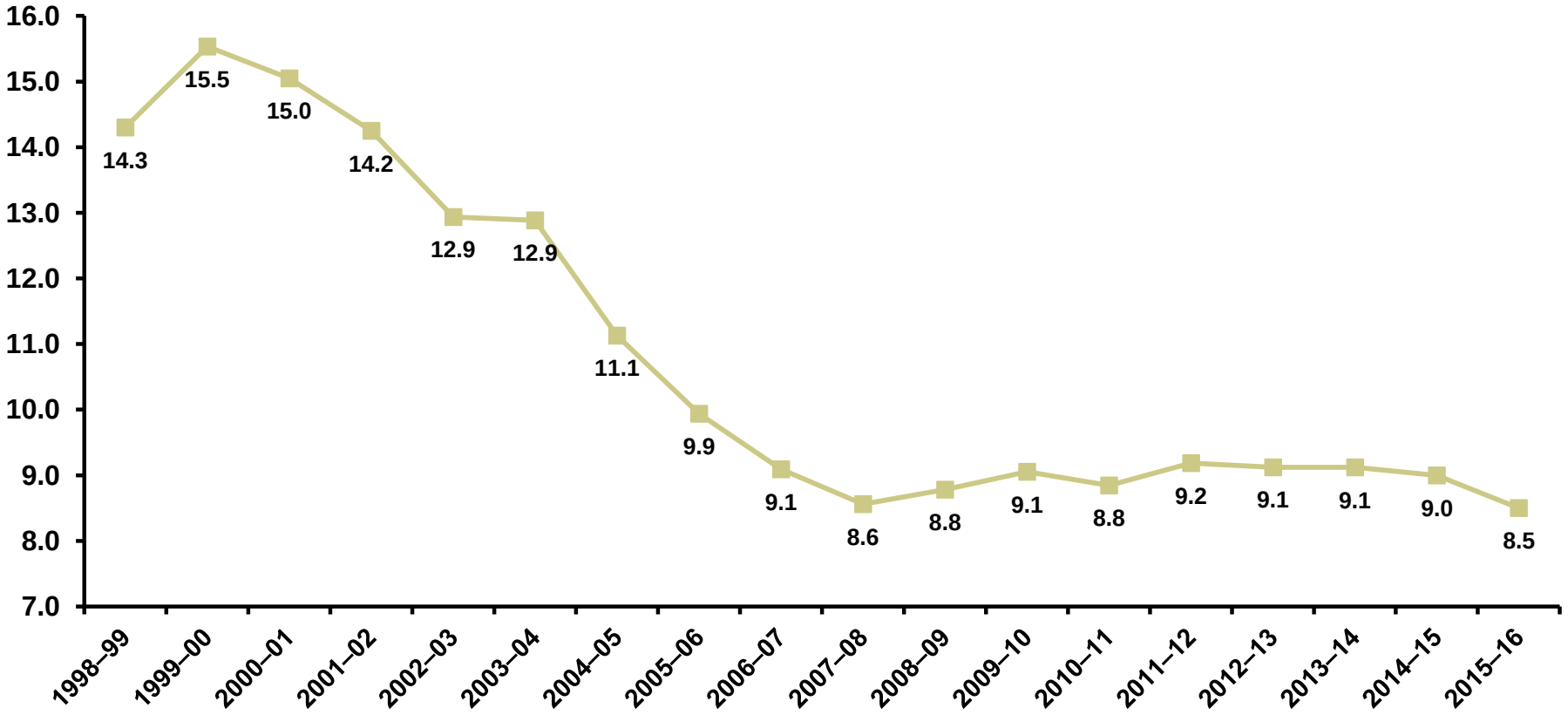
Medium-Term Borrowing Outlook

	Current Outlook	2016 Budget Outlook	
($ Billions)	**2016–17**	**2017–18**	**2018–19**
Deficit/(Surplus)	4.3	0.0	0.0
Investment in Capital Assets	11.2	12.4	14.2
Debt Maturities	21.2	17.5	22.1
Other Requirements	(6.8)	(6.5)	(7.3)
Total Funding Requirement	**29.8**	**23.3**	**28.8**
Other Adjustments	(3.4)	–	–
Preborrowing from 2015–16	(2.0)	–	–
Total Long-Term Public Borrowing	**24.4**	**23.3**	**28.7**

Note: Numbers may not add due to rounding.

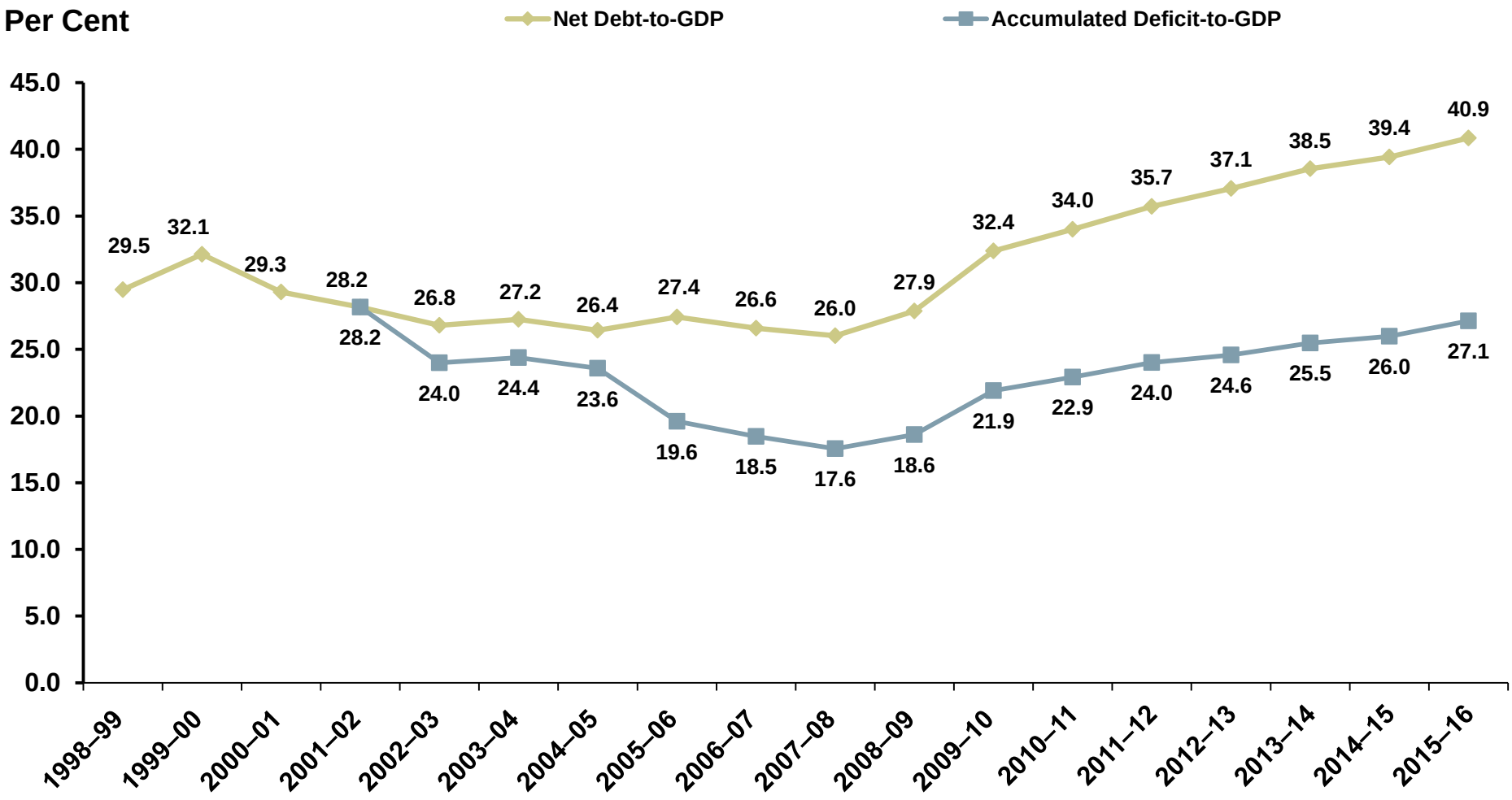
Interest on Debt-to-Revenue

Interest on Debt-to-Revenue
(Per Cent)



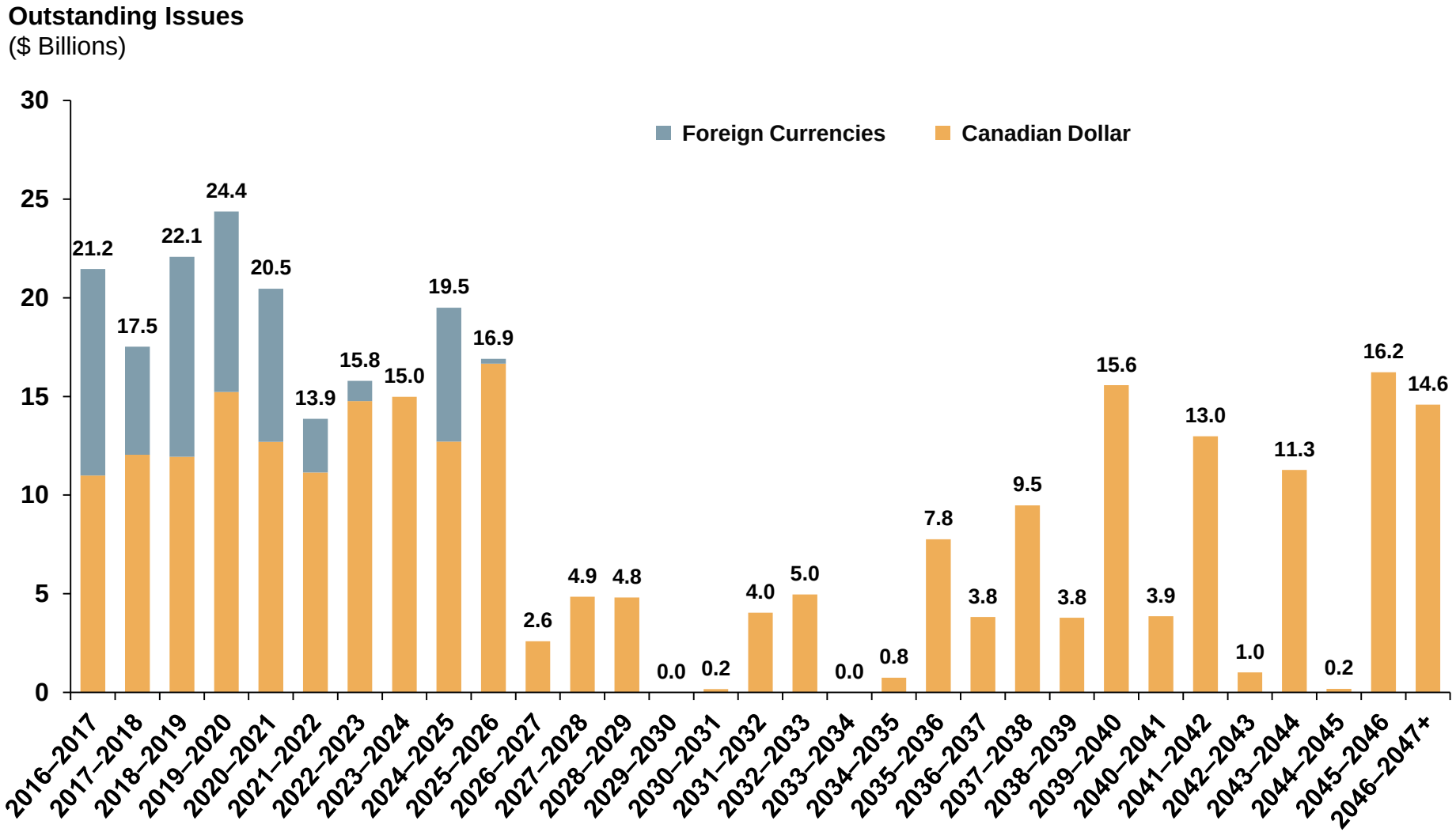
Note: Chart dates represent fiscal years ending March 31st.
Source: Ontario Financing Authority.

Net Debt-to-GDP and Accumulated Deficit-to-GDP



Note: Chart dates represent fiscal years ending March 31st.
Sources: Statistics Canada and Ontario Ministry of Finance.

Maturity Profile of Outstanding Issues



Note: Chart dates represent fiscal years ending March 31st.

Risk Management

- Monitor and manage debt maturity profile to limit refinancing risk
- Maintain a high level of liquid reserves and short term borrowing capacity
- Enforce strict credit limits for financial and investment counterparties
- Have collateralized swap agreements in place for most swap counterparties

	Exposure	Policy Limit
Foreign Exchange	0.33%	5.0%
Net Interest Rate Resetting	10.60%	35.0%

Of outstanding debt, as of September 30, 2016.

Note: Excludes Ontario Electricity Financial Corporation debt.

Economic and Fiscal Summary

- **Canada Overview**
  - Economy grew faster in 2014 than most major advanced economies, but growth softened in 2015 mainly due to the drop in oil prices
- **Ontario's Economy**
  - Ontario became one of the strongest growing provincial economies in Canada during 2014 and 2015, and, on average, private sector economists expect that trend to continue until at least 2017[1]
- **Eliminating the Deficit**
  - The government is dedicated to a fiscally sound approach to managing the Province's finances, and is committed to balancing the budget by 2017–18
  - The plan to balance the budget is focused on transforming government and responsibly managing spending, and ensuring revenue integrity and addressing the underground economy
- **Mortgage Market**
  - Conservative mortgage market
  - All high ratio residential mortgages issued by banks must be insured and the large majority is guaranteed by the federal government

[1]Ontario Ministry of Finance Survey of Forecasters (October 2016).

Canada Overview

- Canadian economy grew 1.1 per cent in 2015, following a 2.5 per cent advance in 2014. Ontario's economy grew 2.7 per cent in 2014, followed by 2.6 per cent in 2015
  - In Canada, growth slowed in 2015 largely due to the impact of lower oil prices in energy-producing provinces
  - In Ontario, growth has remained solid, benefiting from ongoing U.S. demand, a more competitive Canadian dollar and low oil prices
- Ranked as having one of the world's best bank soundness for nine consecutive years[1]
- Lowest general government net debt-to-GDP ratio of any G7 country

[1] World Economic Forum, Global Competitiveness Report (2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016).

Ontario Overview

- Located in prime area with close ties to many major U.S. cities

- Ontario has a diverse economy with direct taxation powers and stable growth

- Population of 14 million in 2016 and nominal GDP of $747 billion in 2015, both about 40 per cent of Canada



Toronto Overview

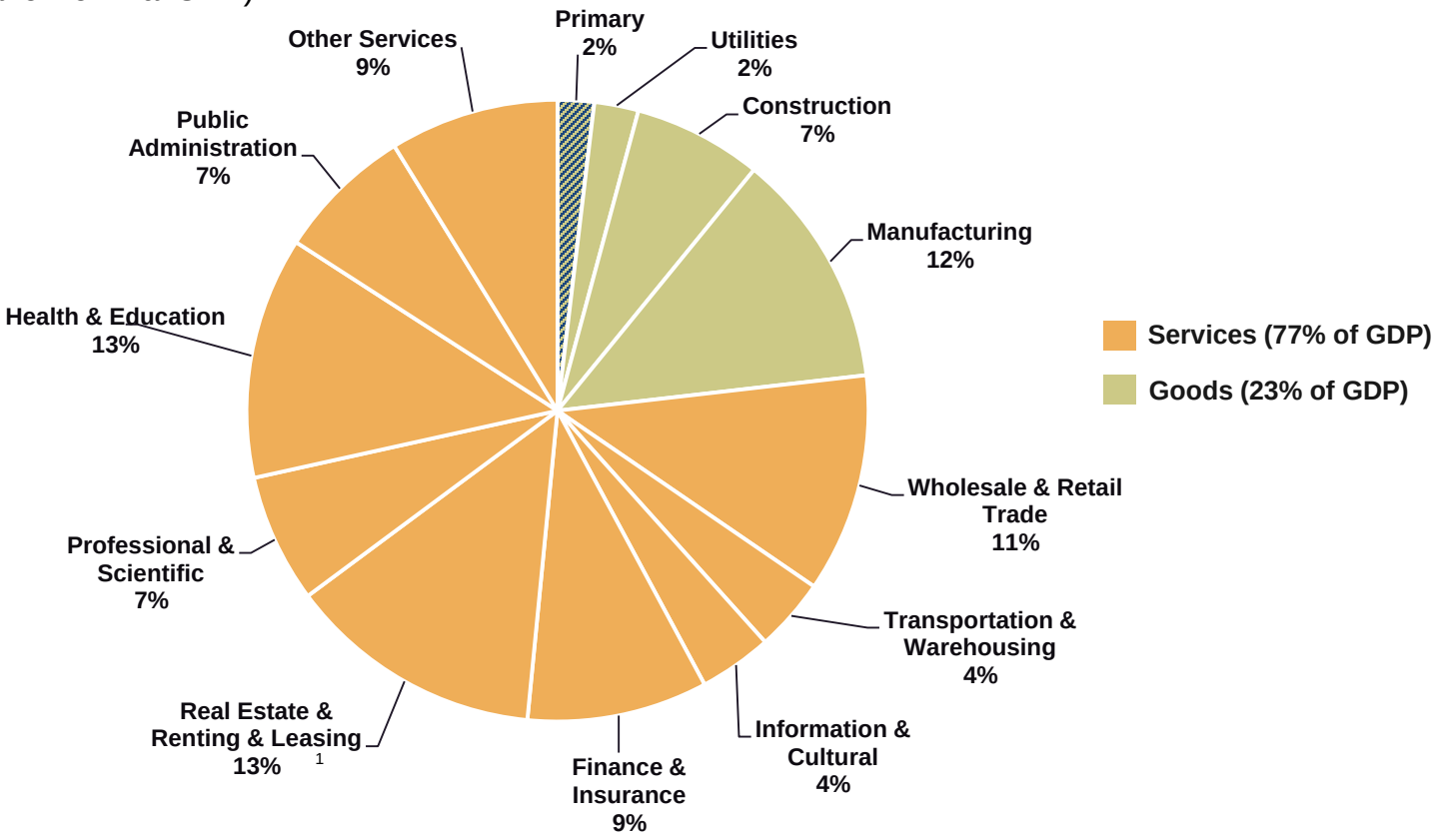
- Toronto is Canada's largest city in terms of population and economic activity:
  - With 6.1 million people, the Toronto metropolitan area accounts for 44 per cent of Ontario's population
  - Real GDP was estimated at $318 billion in 2015[1], accounting for about 48 per cent of Ontario's output
- It is one of the most diverse cities in the world, with over 140 languages and dialects spoken
- Toronto is the financial capital of Canada and has the second largest employment in finance and insurance in North America
- Banker Magazine ranks Toronto 7th as an international financial centre and Toronto ranks 13th on the Global Financial Centres Index[2]
- The Toronto Stock Exchange is the world's 8th largest stock exchange by market capitalization
- The 2016 PWC Cities of Opportunity global study, which benchmarks 30 cities against an extensive set of social and economic qualities ranked Toronto 3rd in the world after London and Singapore
- Major sports centre with Toronto Maple Leafs in NHL hockey, Toronto Blue Jays in Major League baseball and Toronto Raptors in NBA basketball

[1] Conference Board of Canada Spring 2016 Metropolitan Outlook
[2] As of September 2016

Ontario's Diverse Economy

- Ontario has a diverse economy, with extensive manufacturing, financial and business services and a smaller energy sector compared to the rest of Canada

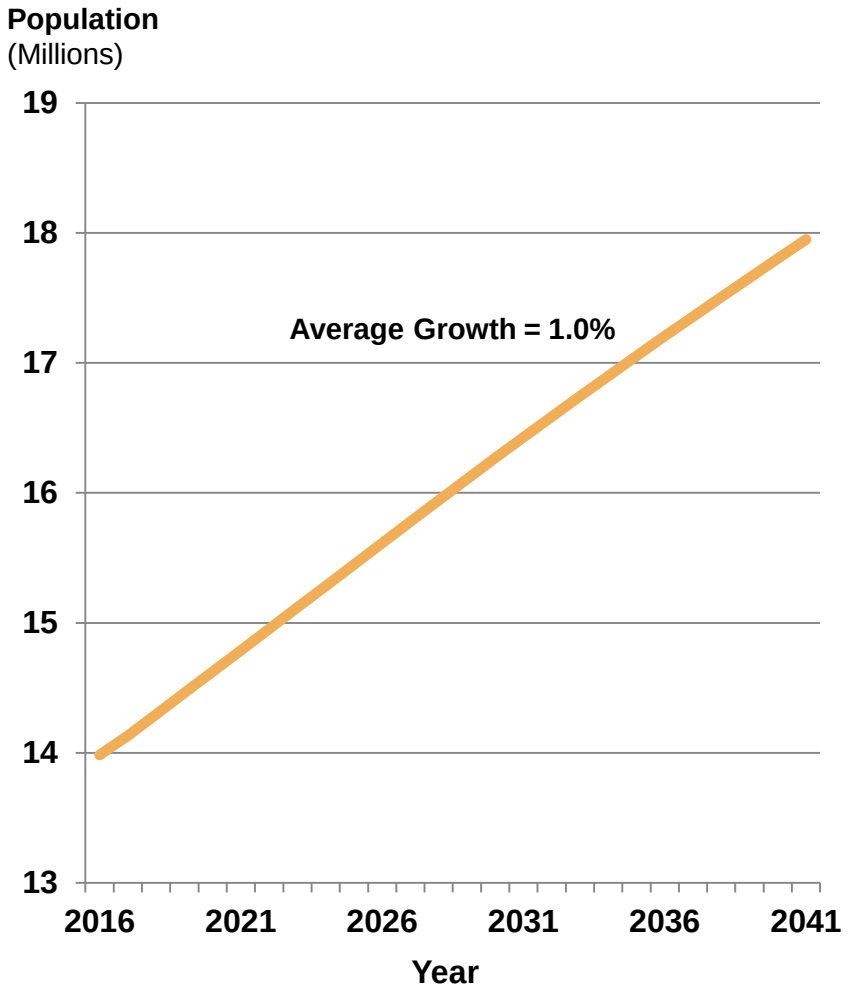
Structure of the Ontario Economy, 2015
(Per Cent Share of Ontario Nominal GDP)



[1] Includes estimate of imputed rental income on owner occupied dwellings.
Sources: Statistics Canada and Ontario Ministry of Finance.
Note: Numbers may not add due to rounding.

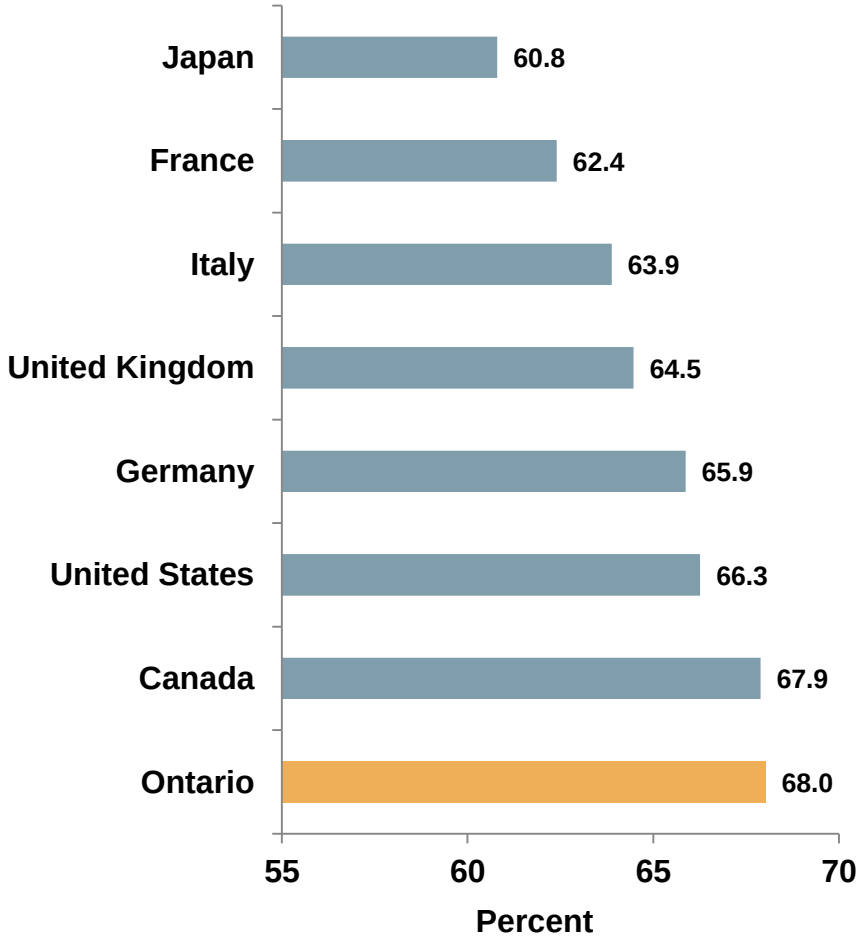
Favourable Demographics

Ontario Population Projection
2016–2041



Sources: Statistics Canada for 2016 and Ontario Ministry of Finance projections.

Working-Age (15–64) Population Share
Compared to G7 (2015)

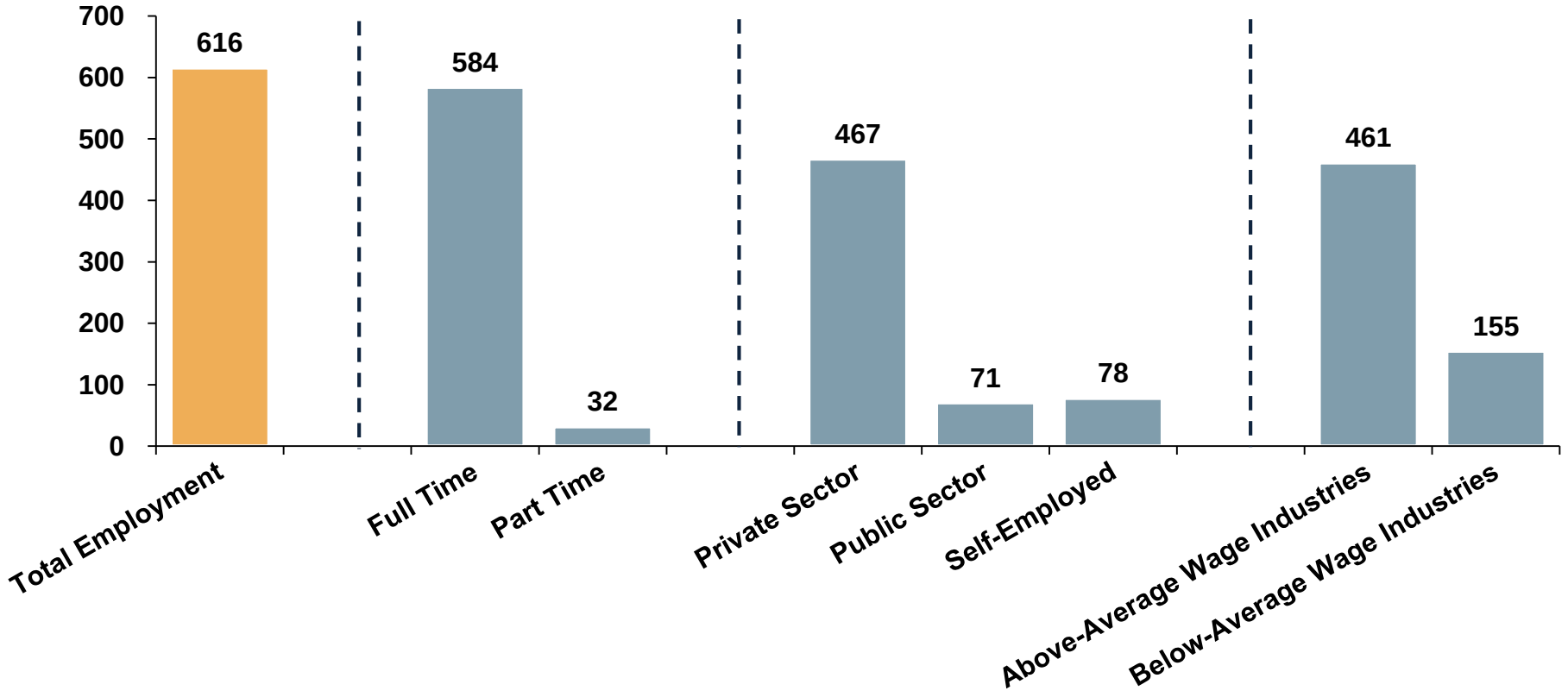


Sources: Statistics Canada and The World Bank.

Ontario's Strong Job Recovery Since the Global Recession

- Employment Gains Concentrated in Full-Time, Private-Sector, Above-Average Wage Industries

Employment Gains since June 2009
(Thousands)

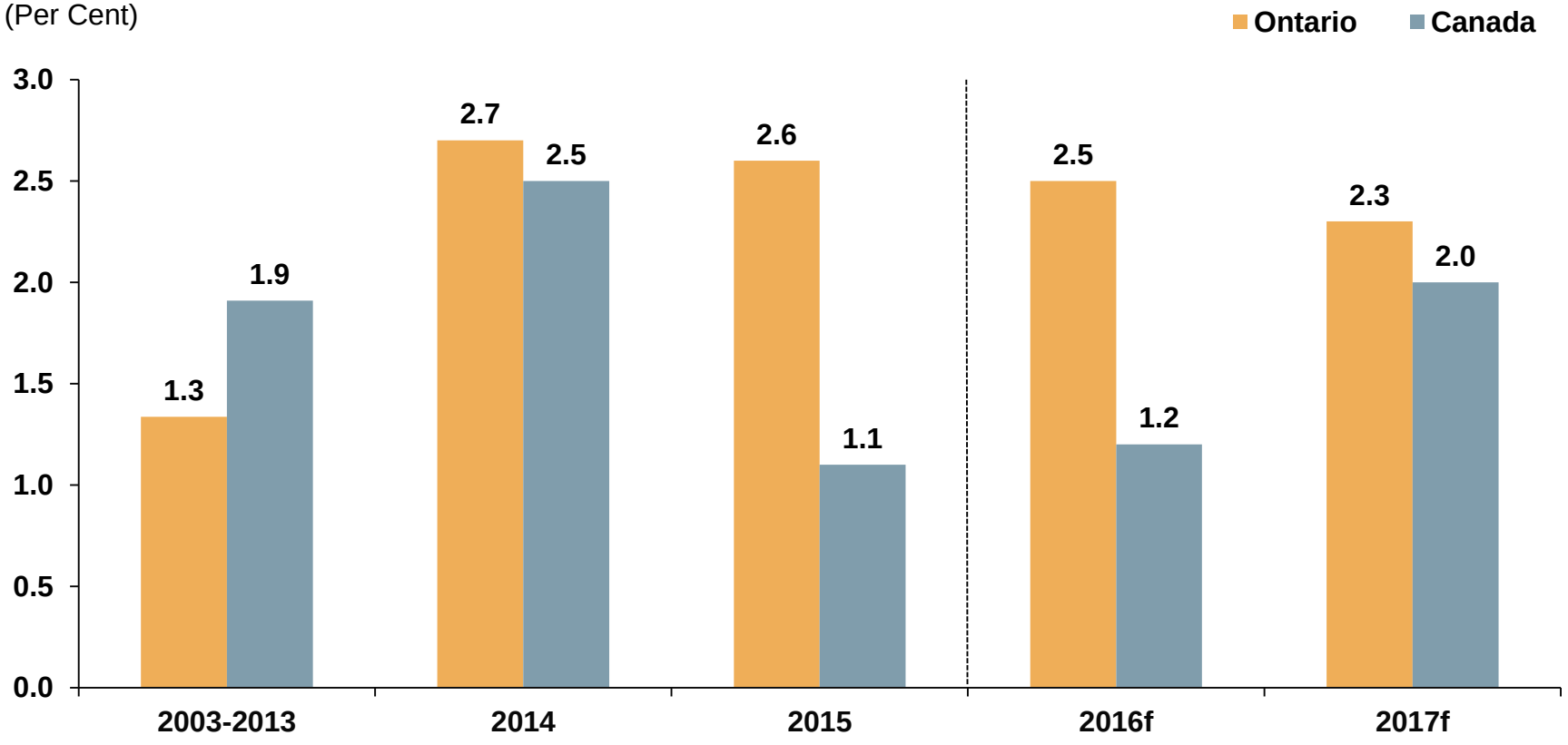


Note: Numbers may not add due to rounding. Above-average wage industries are defined as those with earnings above the average hourly earnings of all industries in 2015.
Sources: Statistics Canada and Ontario Ministry of Finance (October 2016).

Ontario Outpacing Canadian Growth

- Ontario outpaced Canadian growth in 2014 and 2015 and private sector economists expect that trend to continue until at least 2017

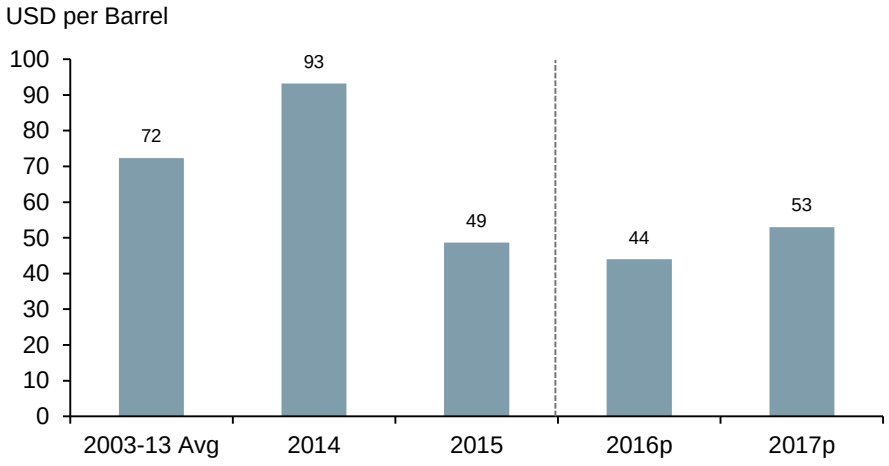
Real GDP growth
(Per Cent)



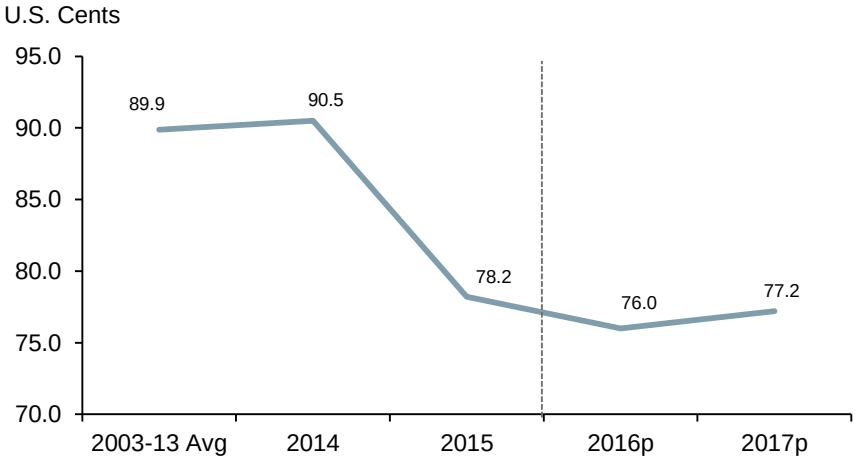
f = private-sector forecast.
Sources: Statistics Canada , Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Private Sector Forecasts (October 2016).

External Factors Supportive to Ontario's Growth

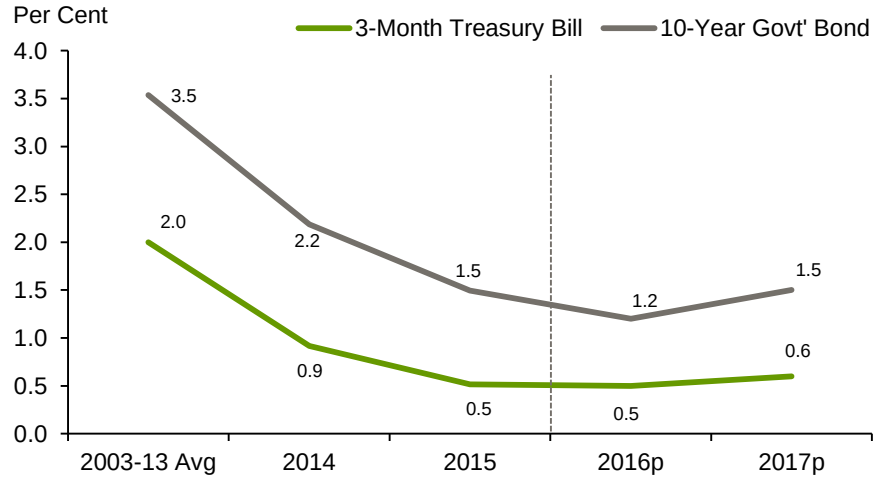
WTI Oil Prices



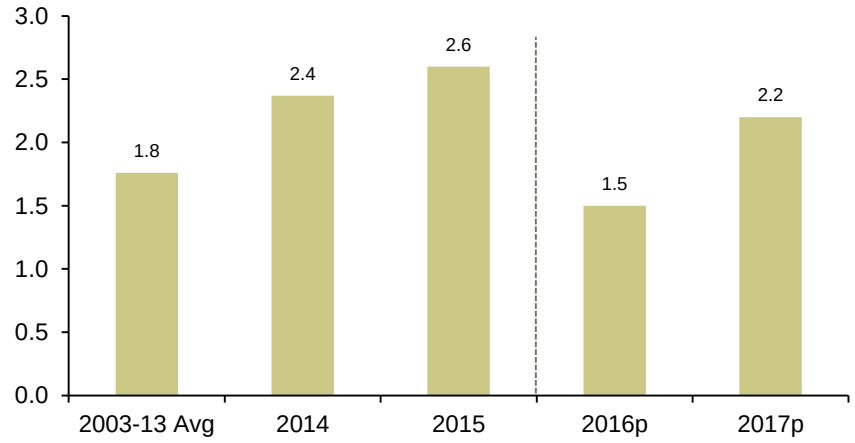
CAD/USD Exchange Rate



Canadian Interest Rates

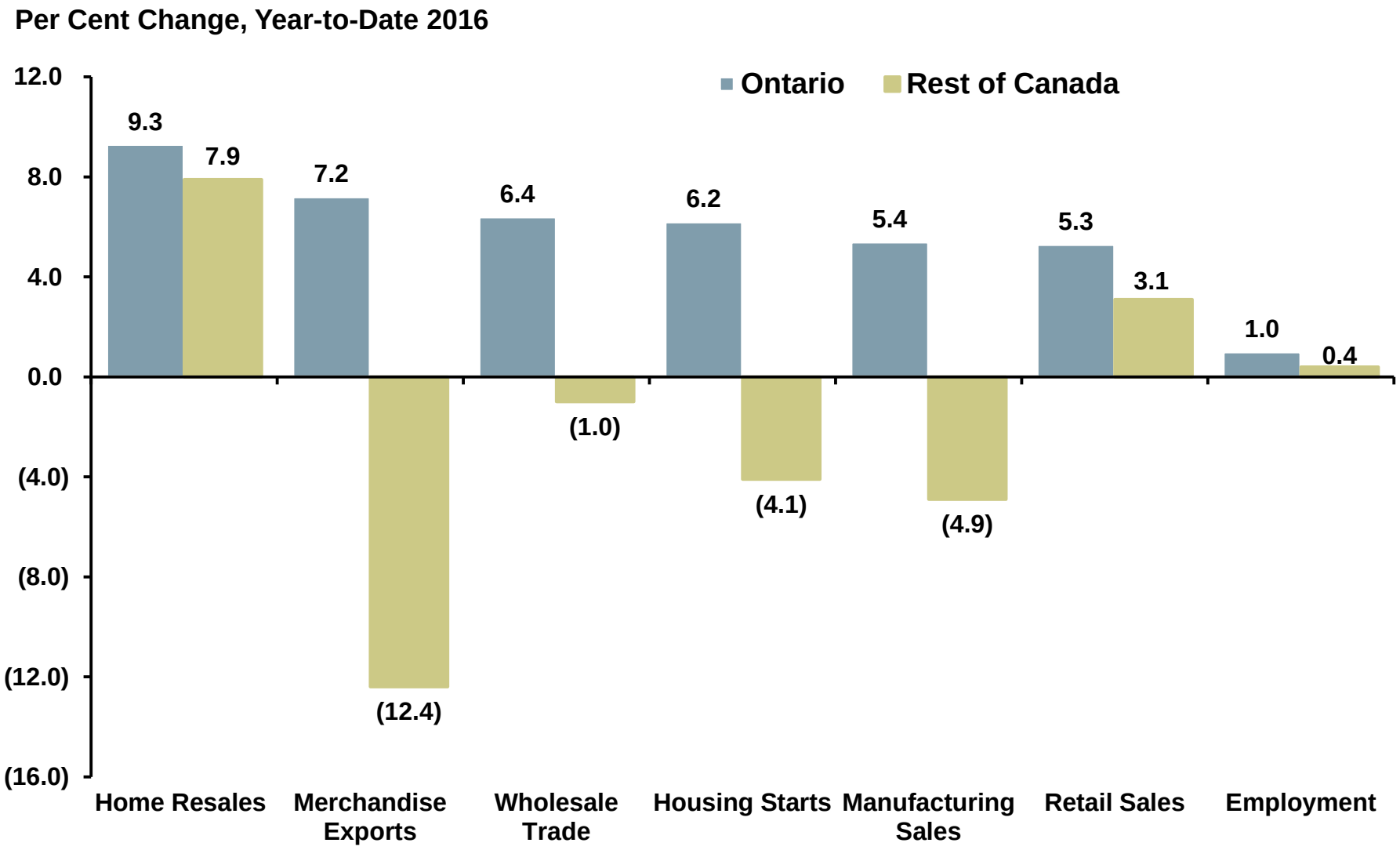


U.S. Real GDP Growth



Sources: U.S. Energy Information Administration, Bank of Canada, U.S. Bureau of Economic Analysis, Ontario Ministry of Finance Survey of Forecasts (October 2016) and *Blue Chip Economic Indicators* (September 2016).

Key Ontario Economic Indicators Outpacing Canada

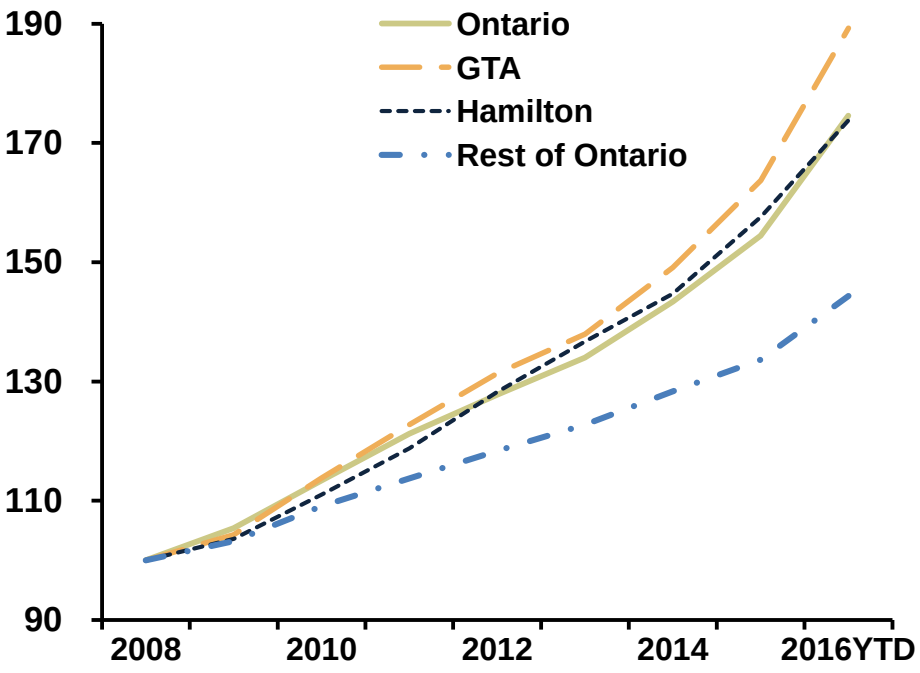


Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Canadian Real Estate Association.

Strong Home Resale Price Appreciation in GTA

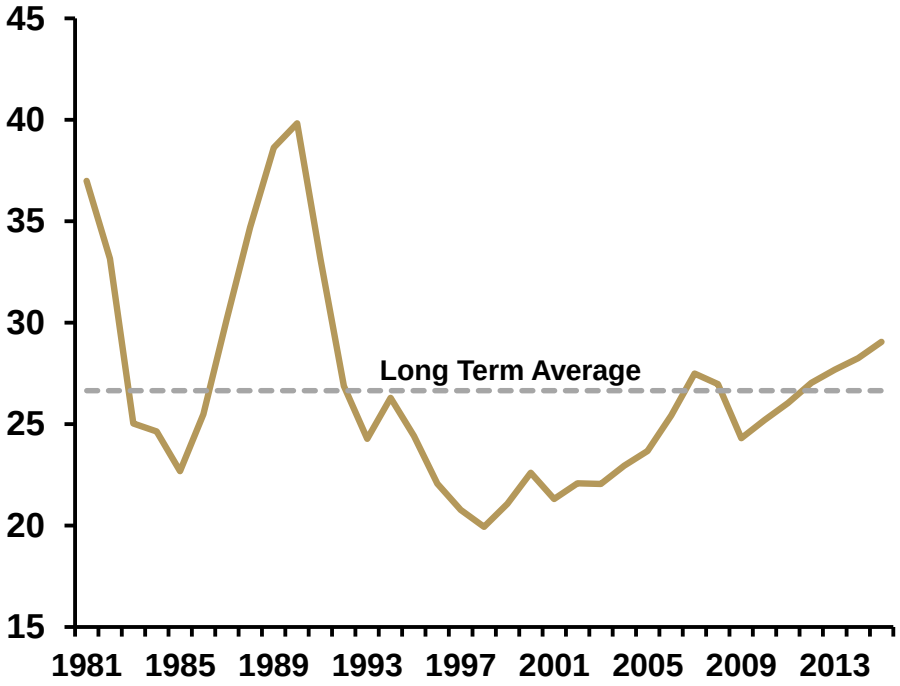
- The acceleration in resale house price growth in the Greater Toronto Area and Hamilton has led to a deterioration in affordability

Resale Home Prices
Index 2008 = 100



Note: The rest of Ontario price index is a MOF construct.
Sources: Canadian Real Estate Association and Ontario Ministry of Finance.

Mortgage Carrying Cost as a Share of Disposable Income per Ontario Household
(Per Cent)

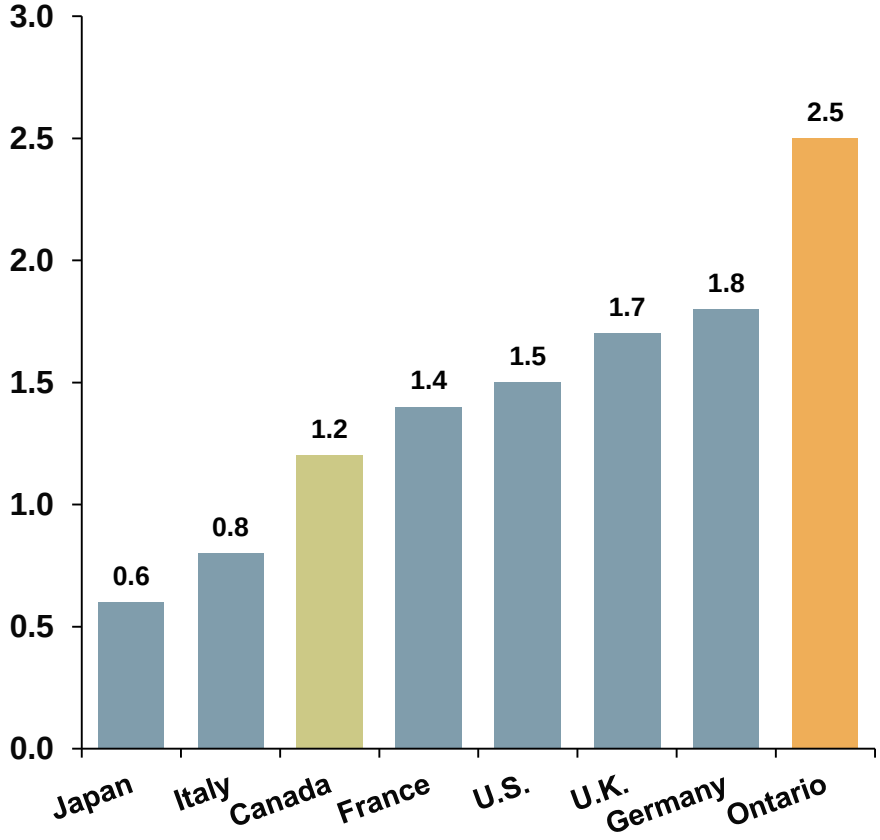


Note: Carrying cost is based on the average five-year mortgage rate, a 25-year amortization and a 25 per cent down payment.
Sources: Statistics Canada, Bank of Canada, Canadian Real Estate Association and Ontario Ministry of Finance.

Ontario's Outlook Compares Favourably with G7

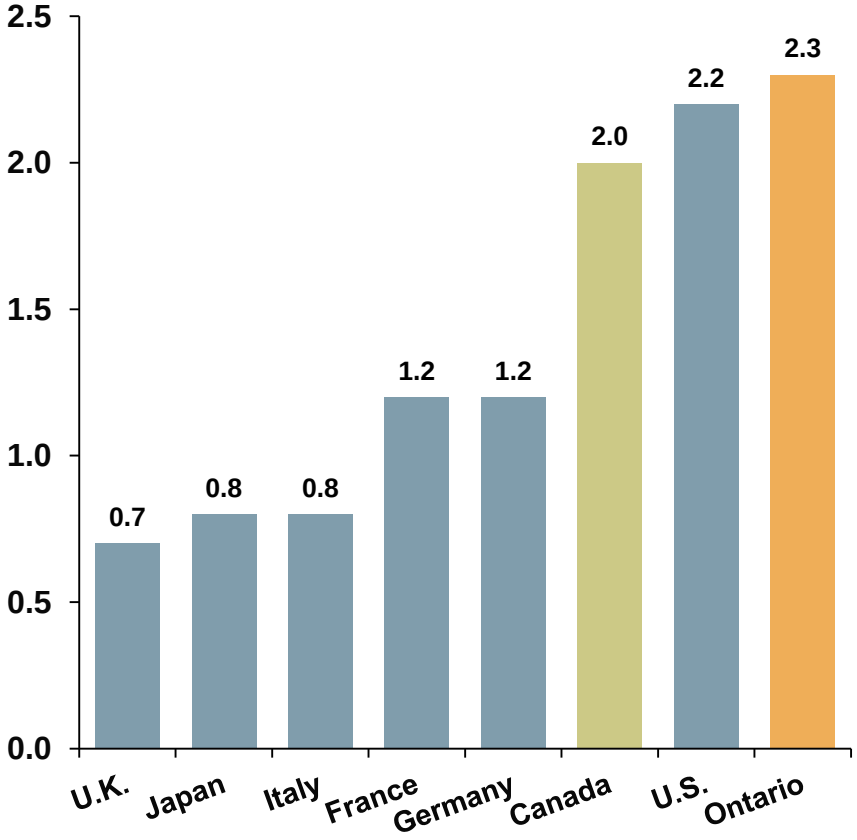
G7 Economic Growth, 2016

Average Real GDP Growth
(Per Cent)



G7 Economic Growth, 2017

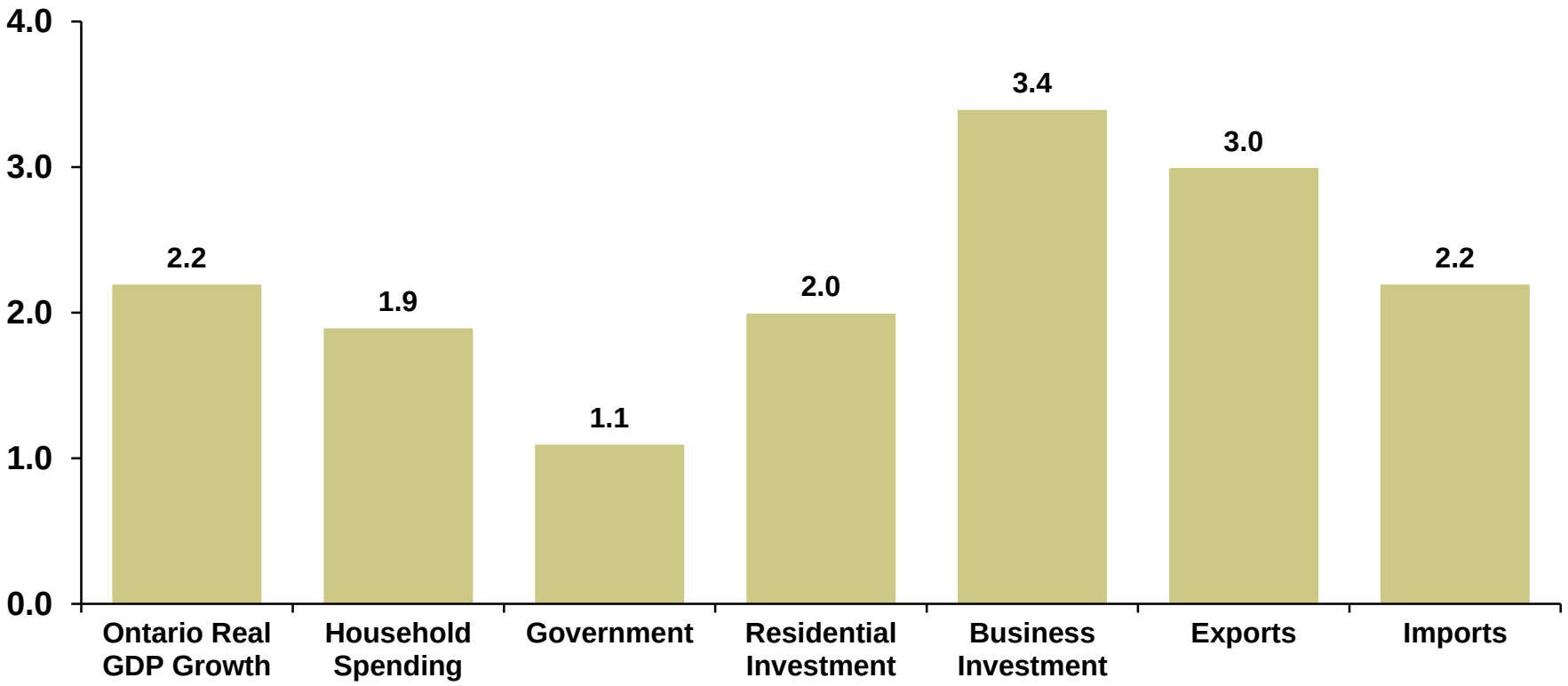
Average Real GDP Growth
(Per Cent)



Sources: Consensus Economics (September 2016), Blue Chip Economic Indicators (October 2016) and Ontario Ministry of Finance Survey of Private Sector Forecasts (October 2016).

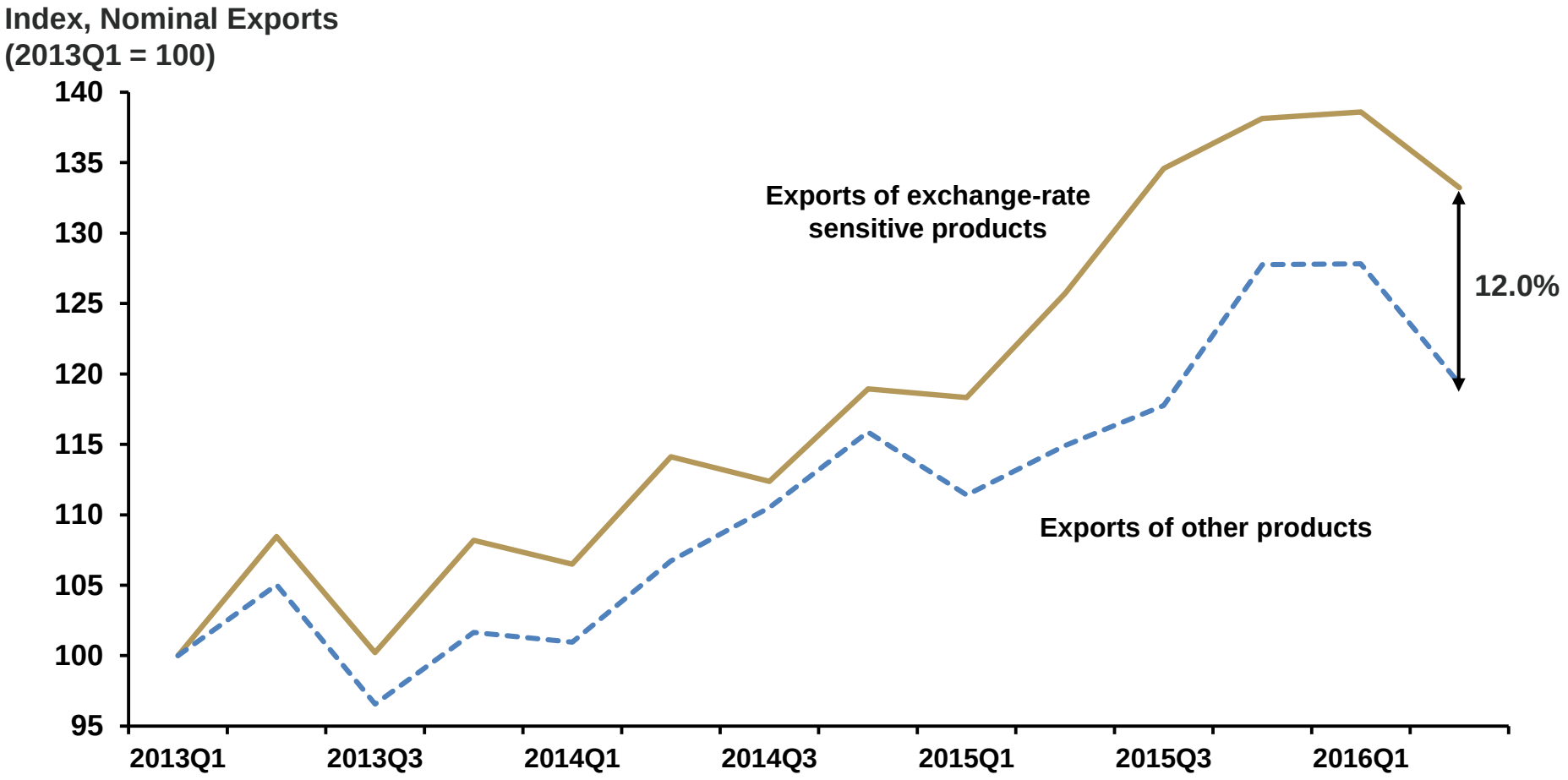
Ontario Economic Growth Will Be Led by Investment and Trade

Forecasted Average Annual Per Cent Change, 2016 to 2019



Notes:
[1] Government includes investment and consumption expenditure.
[2] Business investment includes investment in plant, equipment and intellectual property products.
Source: Ontario Ministry of Finance (Budget 2016).

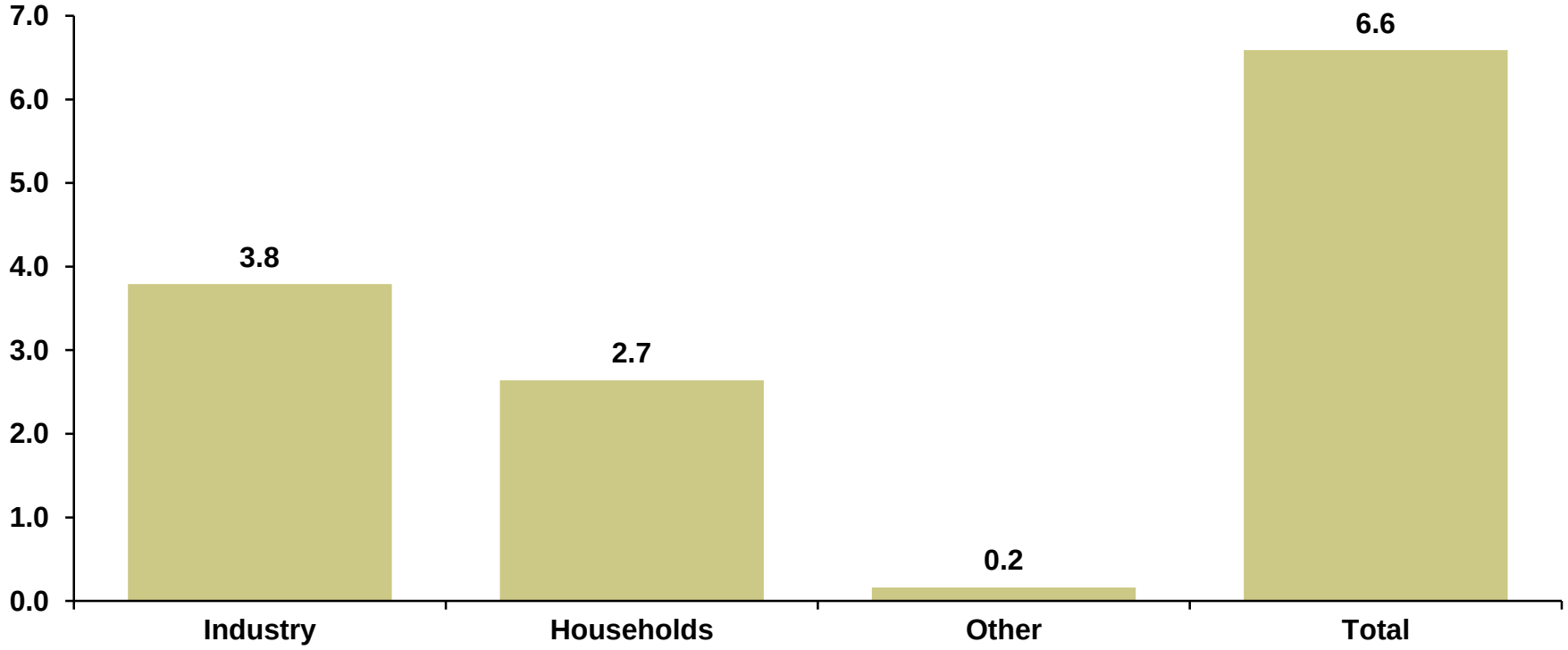
Exchange-Rate-Sensitive Exports Already Benefiting from Lower Canadian Dollar



Note: Data expressed in nominal terms.
Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance.

Lower Oil Prices Providing Savings to Consumers and Businesses

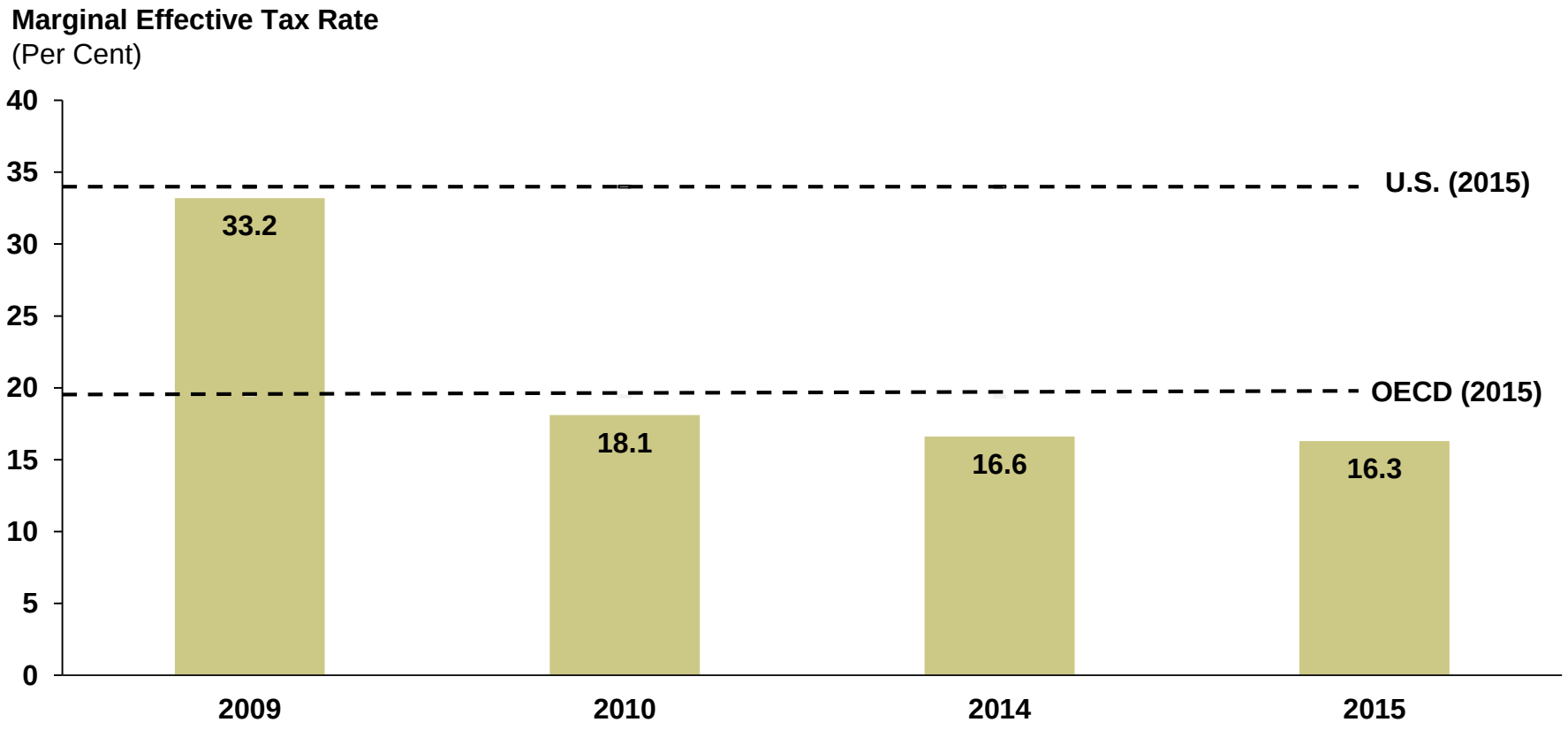
Estimated savings in 2015
($ Billions)



Notes:
[1] Savings compare average prices in 2015 to 2014. Adjusted for the exchange rate.
[2] A small share, "Other" accruing to government and the non-profit sector.
Source: Ontario Ministry of Finance (Budget 2016).

Cutting Ontario's Marginal Effective Tax Rate

- Ontario's Marginal Effective Tax Rate on new business investment has been cut in half since 2009

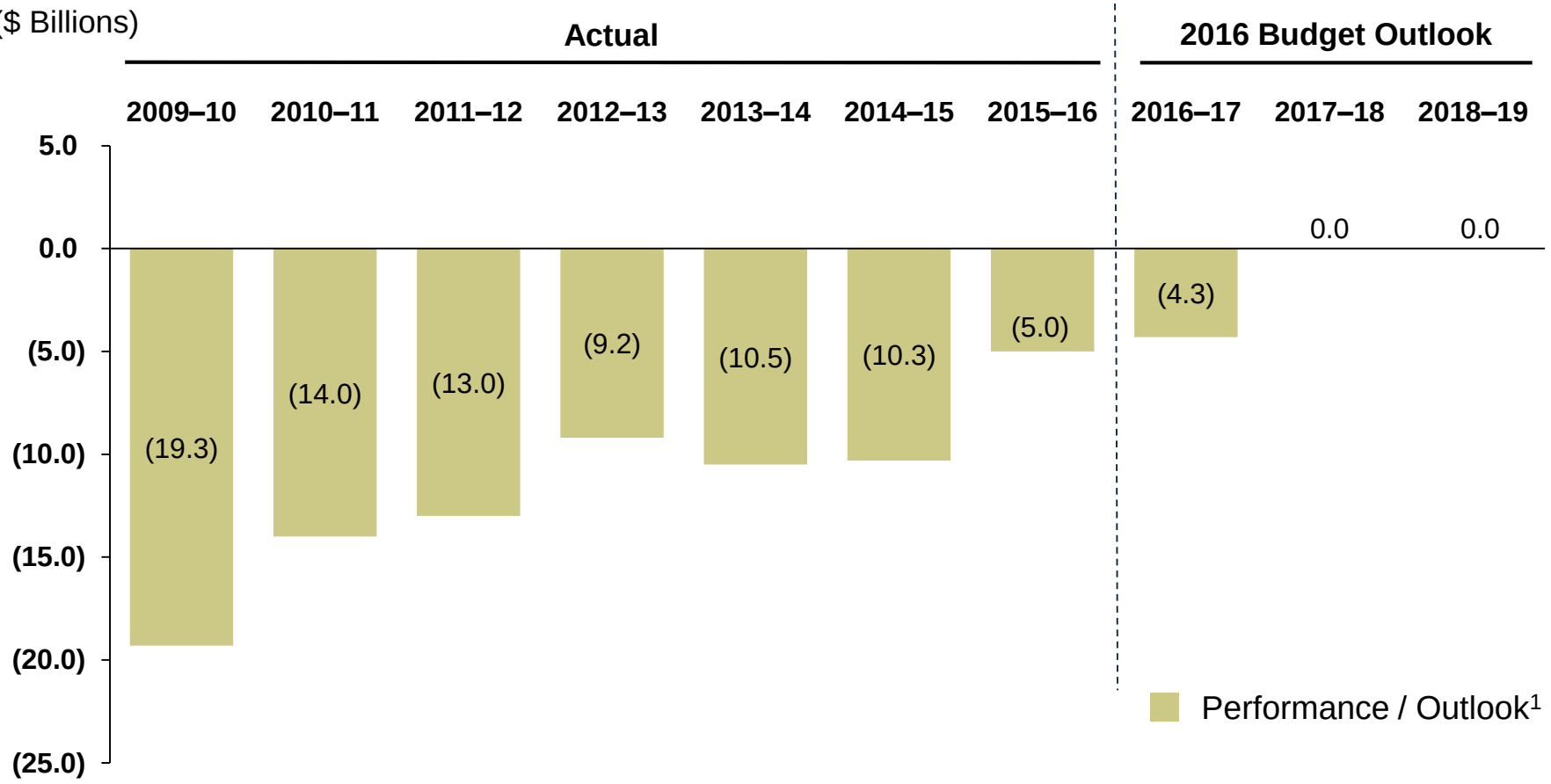


Notes: The marginal effective tax rate (METR) takes into account federal and provincial/state corporate income taxes, capital taxes and sales taxes.
The OECD METR is the average for OECD member countries excluding Canada.
The METRs for the U.S. and OECD countries include measures announced as of January 1, 2015.

Sources: Finance Canada and Ontario Ministry of Finance.

Ontario's Plan to Eliminate the Deficit

Fiscal Balance
($ Billions)



[1] Represents 2016 Budget Outlook for 2016–17 to 2018–19. For 2009–10 to 2015–16, actual results are presented.
Source: Ontario Ministry of Finance.

Ontario's Fiscal Plan and Outlook

- The government is projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19

Ontario's Medium-Term Fiscal Plan and Outlook	Actual		2016 Budget Outlook		
($ Billions)	**2014–15**	**2015–16**	**2016–17**	**2017–18**	**2018-19**
Revenue	**118.5**	**128.4**	**130.6**	**137.7**	**141.9**
Expense					
Programs	118.2	122.4	122.1	124.2	127.6
Interest on Debt	10.6	11.0	11.8	12.5	13.1
Total Expense	**128.9**	**133.4**	**133.9**	**136.6**	**140.7**
Reserve	–	–	1.0	1.1	1.2
Surplus/(Deficit)	**(10.3)**	**(5.0)**	**(4.3)**	**0.0**	**0.0**

Note: Numbers may not add due to rounding.

Credit Ratings

Rating Agencies	Long-term Rating	Short-term Rating	Outlook
Moody's	Aa2	P-1	stable
FitchRatings	AA-	F1+	stable
DBRS	AA (low)	R-1 (mid)	stable
Standard & Poor's	A+	A-1+	stable

Summary

- Current Ontario spreads represent value for investors
- Ontario bonds are highly liquid
- We maintain a responsive and flexible approach in dealing with markets
- The government remains committed to balancing the budget by 2017–18
- The province is well positioned for long-term fiscal sustainability and is projecting to remain balanced in 2018–19

For up-to-date information on our borrowing program, please visit our website:

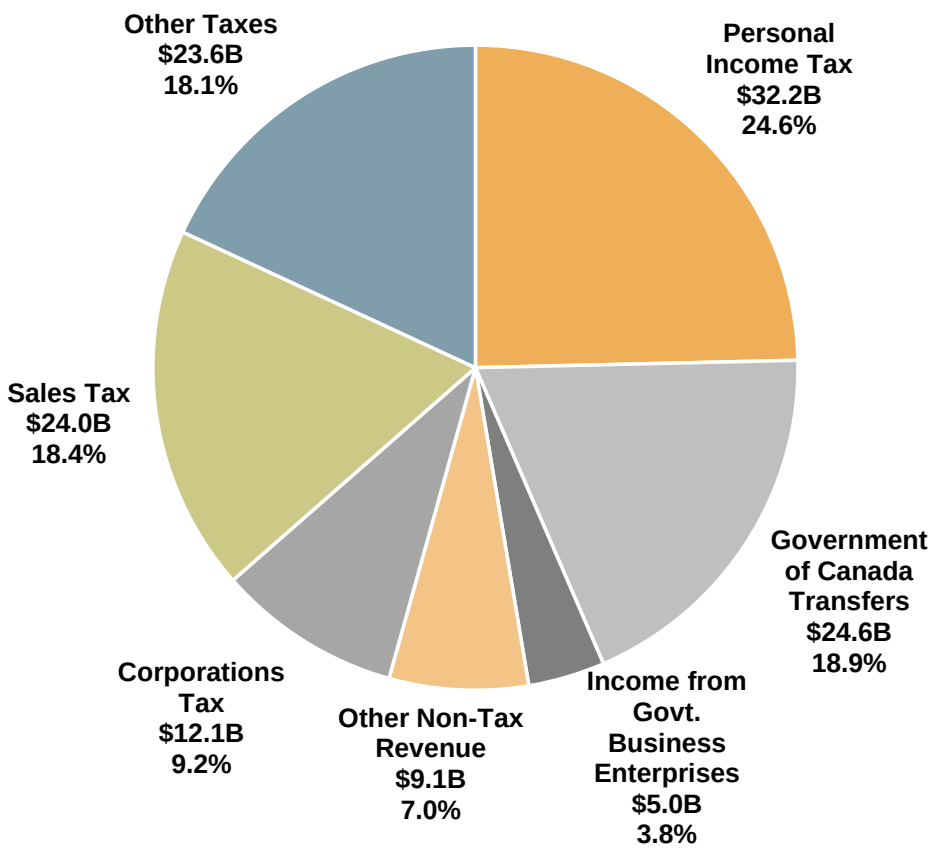
www.ofina.on.ca

To contact our funding team, please use our website or contact us directly

Appendix

Composition of Revenue 2016–17

Revenue $130.6 Billion



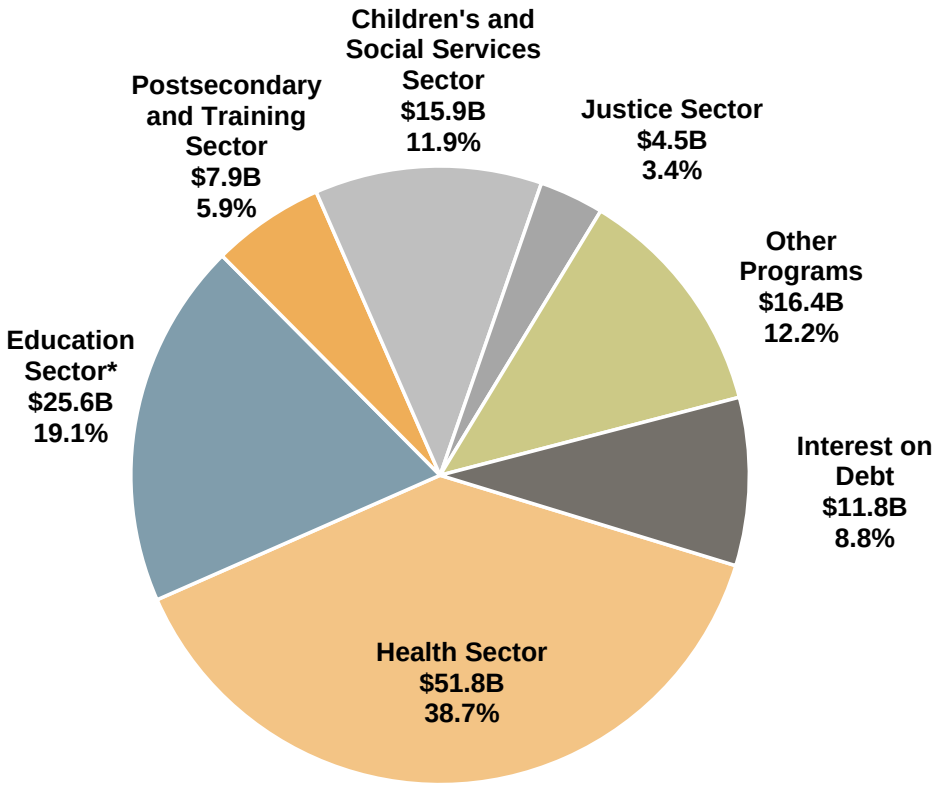
Source: Ontario Ministry of Finance, *2016-17 First Quarter Finances.*

Note: Numbers may not add due to rounding.

- Revenue sources are diversified
- Taxation revenues account for 70.3 per cent of total revenues
- Government of Canada transfers including the Canada Health Transfer, Canada Social Transfer and Equalization account for 18.9 per cent of total revenues
- Net Income from Government Business Enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Hydro One Ltd, Brampton Distribution Holdco Inc. and Ontario Power Generation Inc.) account for 3.8 per cent of total revenues
- Other Non-Tax Revenues such as Vehicle and Driver Registration fees, Sales and Rentals, and Royalties account for 7.0 per cent of total revenues

Composition of Total Expense 2016–17

Total Expense $133.9 Billion



- The largest expense is the Health Sector at $51.8 billion, accounting for 38.7 per cent of total expense
- Interest on Debt, included as part of Total Expense, is $11.8 billion, or 8.8 per cent of total expense

* Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.

Source: Ontario Ministry of Finance, *2016-17 First Quarter Finances.*

Note: Numbers may not add due to rounding.

Federal vs. Provincial Division of Powers

- Expenditure responsibilities of federal and provincial governments are described in the *Constitution Act, 1867*
- Provincial government responsible for: hospitals, health care, education (including universities and colleges), highways, social programs and municipal governments
- Provinces retain discretion over expense decisions and are free to modify their expenses to meet policy objectives
- Provinces have ability to borrow, but do not control monetary policy
- Provincial governments do not require a vote or supermajority, as in some American states, to raise revenues or cut expenses

Federal Transfers to the Provinces

- Federal transfers to the provinces support provincial program spending
- All provinces receive health and social transfers from the federal government; some provinces receive equalization payments
- Provinces have considerable flexibility in how transfer payments are used, in contrast to U.S. states which receive conditional transfers

Transfer	Used for
Canada Health Transfer	Supporting health care spending in provinces and territories
Canada Social Transfer	Supporting postsecondary education and social programs
Equalization	Addressing fiscal disparities among provinces

Equalization

- Equalization is the federal government's transfer program for addressing fiscal disparities among provinces
- Ontario will receive an Equalization payment of about $2.3 billion in 2016–17
- In 2016–17, Ontario's net contribution to the Equalization program is approximately $4.6 billion

Ontario Compared to U.S. States

	ONTARIO	U.S.
Credit Ratings	• Ontario is a strong investment grade credit. • Moody's credit rating is based on joint default analysis which builds in the strong likelihood of federal support. • Despite higher debt levels, Ontario credit ratings are stronger than a number of U.S. states.	• Material differences in fiscal flexibility and division of responsibilities across levels of governments are reasons why the U.S. states are not considered peers by credit rating agencies.
Financing	• Strong access to international capital markets. Regular issuer in U.S., with well defined yield curve. • All bonds issued by the province are General Obligation Bonds.	• Bonds are often tied to certain revenue streams which can impact term structure. • Issuing General Obligation Bonds may require voter approval or legislative backing.
Federal Support	• Strong federal partner. Federal transfers include health, social and equalization. • Transfers account for about 19 per cent of Provincial revenues, and province has considerable flexibility in how funds are used. • Federal transfers more secure - multi-year formula agreements.	• Federal support could be jeopardized by cutbacks which increases uncertainty. • U.S. states receive conditional transfers. No federal program aimed explicitly at reducing the disparities in state fiscal capacity.
Public Pensions	• Canada's Pension Plan is fully funded with total assets of $287.3 billion (June 30, 2016). • Joint trusteeship for Ontario Teachers' Pension Plan and Ontario Public Service Union. Sole sponsor of the Public Service Pension Plans. • The majority of Ontario's pension plans have surpluses. Those with small unfunded liabilities are being addressed with special payments over 15 years to fund the shortfall.	• U.S. Social Security Trust Fund has a large unfunded liability. • Large unfunded pension liability and growing post-employment liability. Aggressive discount rate assumptions. • Growing budget pressures will continue to challenge Governments' ability to provide adequate contributions.

Ontario Compared to U.S. States – Cont'd

	ONTARIO	U.S.
Spending	• Constitutional authority over health and education spending which accounts for over 63 per cent of total program spending. • Federal government provides support for health and social spending.	• Health care and education funded by private sector and various levels of government. • Dedicated tax structure funds education.
Revenue	• Ontario's taxation powers are akin to sovereign nations. • Unfettered access to broad range of tax base including: personal and corporate income tax, sales, payroll and property taxes. • Simple majority of legislature required to raise taxes which gives the province a high degree of fiscal policy flexibility.	• Limitations under state constitutions to levy and collect taxes vary widely. • Voter approval required to raise taxes. Some states require super majority in legislature or even a referendum to raise taxes which severely limits flexibility. • Revenue sources include: personal and corporate income tax. Most states collect sales tax and some states collect property taxes.
Balanced Budget	• *Financial Transparency and Accountability Act* requires the government to develop a recovery plan for achieving a balanced budget. • Can use fiscal policy as shock absorber in times of economic weakness. • Planning assumptions are conservative, prudence and contingency built in. Plan to return to balance by 2017–18.	• Almost all states are prevented from planning for operating deficits, with fiscal restraints generally embedded in state constitutions or other legislation. • Fiscal tightening has put strain on weak economy and reduced liquidity. • Planning assumptions can be aggressive. Many states have relied on special balances/reserves to meet budget requirements and funds getting depleted.

Canada Compared to U.S. – Housing Market

	CANADA	U.S.
Government Agency	• Canada Mortgage and Housing Corporation (CMHC) is Canada's national housing agency. • Established as a government-owned corporation in 1946 to address Canada's post-war housing shortage. • Canada's premier provider of mortgage loan insurance, mortgage-backed securities, housing policy and programs, and housing research. • No policy goal of increasing home ownership.	• Government-sponsored enterprises, Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae). • National mortgage finance companies which keep money flowing to mortgage lenders to help strengthen the U.S. housing and mortgage markets and to support affordable homeownership. • Do not offer home loans. • Securitize or buy mortgage loans from originating lenders.
Mortgage Insurance	• *Bank Act* prohibits federally regulated banks from providing residential mortgages without mortgage loan insurance if loan is greater than 80 per cent of the purchase price or value of the home. • Insurance covers the entire amount of the loan and is for the entire life of the mortgage and mortgage insurance contracts by private insurers are 90-percent backstopped by the federal government (CMHC is fully backed by the government).	• Lenders are not legally required to use mortgage loan insurance. • However, because Fannie Mae and Freddie Mac are prohibited from purchasing uninsured mortgages when the borrower makes a down payment of less than 20 per cent, U.S. lenders often require mortgage loan insurance.
Mortgage-Backed Securities	• Roughly 34 per cent of Canadian mortgages are securitized. • Almost all securitized Canadian mortgages are funded by mortgage-backed securities (MBS) guaranteed by CMHC under *National Housing Act.* • Over half of those MBS were held by the Canada Housing Trust, funded by CMHC-guaranteed Canada Mortgage Bonds (CMBs).	• Approximately 55 per cent of American mortgages are securitized.
Mortgage Default	• Mortgages are typically "full-recourse" loans. • Borrower continues to be responsible for repaying the loan even in the case of foreclosure. • Lenders can take legal action to recoup money from homeowner if foreclosed home is sold for less than the amount owing on the mortgage, plus many of the costs incurred by the lender.	• Roughly half of all U.S. states mortgages are "non-recourse". • Borrowers can often walk away from their homes and the associated mortgage debt, leaving lenders with no recourse beyond the property.



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From:	Pichette, Marc (MOF)
To:	Bonnie Lemcke; Christina Zhang
Subject:	RE: Do we have final copy of the Minister"s announcement yesterday
Date:	Tuesday, October 04, 2016 10:19:30 AM
Attachments:	Oct. 3 - Minister statements and media availability following technical ....doc

Hi here it is. He mentions the report.

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: October 4, 2016 10:18 AM
To: Zhang, Christina (OFA)
Cc: Pichette, Marc (MOF)
Subject: Do we have final copy of the Minister's announcement yesterday

I wanted to see what was included about the Moody's report.

Bonnie Lemcke
Manager, Credit Analysis and Rating Relations
Ontario Financing Authority
416-325-8170 (w)
416-716-4092 (m)

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MEDIA EVENT: MINISTER STATEMENTS AND MEDIA AVAILABILITY FOLLOWING TECHNICAL BRIEFING ON PROVINCE'S FINANCES

October 3, 2016

Time / Location:

2:45 p.m. - Kenora/Nipigon/Nipissing Rooms

Speakers:

Ministers Sandals and Sousa; PC MPPs MacLeod and Fedeli

Media Attendance:

Print – 5 TV – 5 Radio – 1

Media Outlets:

Jones – CP; Benzie – Star; Morrow – Globe; Jeffords – Sun; Nanji– QP Briefing; Lamoureux - Radio Canada TV; Global; Rath - CHCH Television; Tumelty - City TV; Other unidentified reporters

	Statement by Minister Sandals: So, good afternoon, everyone. And I would just like to start by confirming that Ontario's annual report and unaudited Consolidated Financial Statements for 2015/16 show that Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 budget. With the province's deficit for 2015/16 at $5 billion. This is $0.7 billion lower than the $5.7 billion interim projection that we showed in the 2016 budget. So, as I assured the house last week, this marks the seventh year in a row that Ontario has beaten its deficit target. And we are committed to balancing the budget in 2017/18, and remaining balanced in 2018/19. In preparing the 2015/16 annual report and unaudited Consolidated Financial Statements, Treasury Board staff worked with our colleagues in ministries across government to assemble financial information for the annual report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently-established accounting standards, then reviews this work. Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015/16 Public Accounts. We did so because this year Treasury Board public servants and the Auditor have been engaged in discussions regarding the accounting treatment of pension assets based on a new interpretation of public sector accounting standards taken by the Auditor. Unfortunately, at this time, the Auditor General has not provided an audit opinion on the province's financial statements for 2015/16. This is why the government is releasing these unaudited financial statements to ensure openness and transparency. We felt it important for there to be one set of numbers with respect to the province's financial position. The government believes it is in the public interest to release its financial

	information now since we are six days past the legislated deadline. I would now like to take this opportunity to discuss the pension issue in more detail. Pension accounting requires the application of professional judgement. And working together as much as they could, the province's professional accounting staff and the Auditor General could not reach an agreement on the appropriate application of the public sector accounting board's standards in relation to pension accounting. To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. In fact, the current Auditor General has accepted this treatment for the last two years, resulting in unqualified or clean audit opinions. Three previous auditors general have also accepted it. There has been no change to the relevant accounting standard over the past 14 years. In order to maintain the integrity of the public service, which recommended that the previous accounting treatment continue, and show respect for the auditor, who recommended a new treatment, our government looked to find an immediate solution. This resulted in the government regulating the treatment of pension assets to reflect the fiscal outcome proposed by the Auditor General. We wanted to take a cautious approach during the period under which this issue will be reviewed by experts. This approach also reassures the public the government is on track in regard to its fiscal targets. The impact of the change resulted in an additional $1.5 billion added to the deficit and an additional $10.7 billion being added to the net debt. The public sector accounting board has recognised the pension issue and is working with governments across Canada to provide additional clarity to the current standard, and Ontario, of course, will be part of this national discussion. Ontario will also be engaging with the experts to support a full review on the basis and nature of the differences. The province will consult individuals with a range of backgrounds and experience, including people who prepare accounts, joint sponsors, and auditors of public sector financial reports. It is important to stress that the two pension plans in question, the OPSEU pension plan and the Ontario Teachers' pension plan, are both healthy and well-funded. Second, I would like to take this opportunity to say a little bit more about the 2015/16 financial statements. Although these financial statements are unaudited, it is important to stress that the province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget next year in 2017/18, and remaining balanced in 2018/19. And for emphasis, the province is taking the same view of the 2015/16 results as the auditor. Openness and transparency is a top priority for our government, and we believe it is in the public interest for the Auditor General to issue an audit opinion on Ontario's

	finances so that the public account can in fact be released as expeditiously as possible. And I would now like to turn it over to my colleague, Minister Sousa. **Statement by Minister Sousa:** For the past 14 years, our government and previous governments have followed the same accounting standards with respect to the treatment of jointly sponsored pension plans. These standards have been consistently accepted by the past 4 Auditors, including the current Auditor General. Under the same standards has provided unqualified or clean audited opinions for the past 2 years. This year, two weeks before the September 27th deadline for the tabling of public accounts, we learned in writing from the Auditor-General of her new interpretation of the accounting treatment for our jointly sponsored pension plans, which would result in those assets being written off with no value. In addition, as you know, this new interpretation has resulted in a difference of opinion from accountants from within the Ontario Public Service and the office of the Auditor General. I have great respect for the expertise and independence of both the office of the Auditor General and the province's professional accounting staff. I believe their respective opinions warrant additional discussion and analysis. However, we also have a responsibility to the people of Ontario to be open and transparent about our financial position. It's important that Ontarians see that even in this time of global economic uncertainty, Ontario's economy continues to grow and our fiscal plan continues to improve. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. It's also important that we remain open and transparent so investors in the financial markets can maintain their confidence that Ontario's still on track to balance the budget in 2017-18. That's why we've decided to release our financial statements to the public today despite the divergence in accounting opinions. In order to do this, we regulated a treatment of the pension assets in a manner that's consistent with the fiscal outcome proposed by the Auditor General for the 2015-16.We believe this to be the most cautious approach that ensures the public has access to our financial statements and that our numbers aligned with those of the Auditor General, at least until an independent review of the opposing opinions can be completed. The impact of this change resulted in our deficit number being $1.5 billion higher than it otherwise would have been in the 2015-16 results had we used the same standards employed for the past 14 years. Now I want to reiterate what Minister Sandals has said: that even after incorporating the Auditor's proposed accounting interpretation, we have still beaten our annual deficit target for the seventh year in a row. We've done this by controlling the growth and spending, by making sure every dollar spent provides maximum value to taxpayers, and by providing the integrity of our province's revenues. The 2016-17 first

	quarter finances also confirmed that the government's projecting a deficit of $4.3 billion in 2016-17, unchanged from 2016 budget forecast. Our government's committed to eliminating the deficit by 2017-18 and remaining in balance in 2018-19 as outlined in our most recent budget. The new accounting interpretation does not change the commitment, nor does it change the progress we've made in creating jobs and growing the economy. It's also important to note that regulated accounting change has no impact on the province's borrowing requirements. I should also add that just today Moody's released a report noting that, and I quote, "Ontario's debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province's improving fiscal position and conservative debt management policy." As we prepare the 2016 fall economic statement and 2017 budget, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of the accounting treatment will need to be taken into consideration, along with emerging economic information. This is particularly important as we continue to track toward our commitment to balance the budget by 2017-18 and 2018-19. And with that, we'll take questions.
Q:Jones: Can you still get to balance under the Auditor General's proposed (inaudible)?	Sousa: We are on track to balance as I have said already, notwithstanding the changes that have been made, we, in fact, our balance is not affected. In fact our budget, last budget deficit is further reduced from what we anticipated at $8.5 initially, $5.7 and now it is at $5B in keeping with the Auditor's revisions and new principals that she has provided.
Q; Benzie: The Auditor says the reason, what has changed since last year, is that her officials got a bit suspicious or they were wondering how you were counting money that you could not have access to as an asset. I am just wondering…	Sousa: The President of the Treasury Board can respond to this as well. But we are not here to dispute the interpretation. We are here to determine and release the statements for the benefit of the public. And we have released them in keeping with the Auditor General's revisions. We have actually directed our public service who have done an excellent job but are not in agreement. Notwithstanding, we provided the statements as the Auditor has requested and we have released them to the public.
Q: Morrow: Is the worry here is that if the Auditor says you know this particular accounting practice that everyone has been using for 15, 14 years or whatever, that is wrong as the net debt, that she might find other things in your books that she decides that we are going to have to do this differently as well and that is just going to pile on more and more debt. Is that sort of the concern here, there might be (inaudible)?	Sousa: I will ask Minister Sandals to respond as well. But let's be clear. We have a matter of dispute between accounting professionals. We as the politicians and recognizing the need to release these statements have done so and directed our public servants to do so within the Auditor's requirements. The Auditor and three other auditors before her have been working and reviewing our financial statements and have full confidence in our public service and the work they do. They are all professionals and they have all provided great advice to the province over time. We have been open and transparent. C.D. Howe Institute has again rated Ontario's financials with an A recognizing that we surpass all others in terms of transparency. Sandals: Yeah I would like to agree with Minister Sousa.

	This isn't really about worrying about a lot of what if that and what if that. It is really about a conundrum that we faced as ministers and as Cabinet which is on one hand is that we had advice from the Auditor saying do it this way. On the other hand we had advice from our professional public service saying do it another way. We had to find some sort of a resolution and the resolution was to pass a regulation which said we will in fact present the books in 2015-16 in the way the Auditor has requested for the current 2015-16 year. So it was simply a matter from our point of view of not weighing in on the accounting. We'll ask experts to do that in the coming months. It was simply trying to find a way in which we could actually get you the books so you could see what is going on. And the regulation was a way in which we could facilitate that.
Q: Benzie: The Auditor says she is disappointed that the government has chosen to have this briefing the way you are having while her office is still in talks with your office and Charles' office about this accounting squabble. Are you guys playing politics with her because the government has had issues with her on the Government Advertising Act and other issues in the past? Is this another flare-up in a war that you have (inaudible)?	Sandals: No, this truly is not about politics. This about the fact that according to Financial Accountability Act, we are to table the public accounts by 180 days after the end of the fiscal year. September 27th was 180 days after the end of the fiscal year. So what we've been trying to figure – what we tried to figure out was a way in which we could achieve the legislative requirement to table the public accounts. Now technically this is not tabling the public accounts because we don't have and audited opinion. But what it does do is it makes exactly the same financial information available to the public that would've been available to the public had we tabled the accounts on time and it also adopts the accounting treatment for this year, which was requested by the Auditor General.
Q: Morrow: You guys must be steamed though. I mean, the Auditor comes in on September 13 and says, 'Well, hey guys, by the way, I found this thing, and now your deficit is going to be $1.5 billion higher than you wanted to announce. There's all this extra debt.' That must be annoying to you guys after you've worked so hard to bring the deficit down.	Sandals: I think what I would say is what has been challenging for us is to find a way in which we could present the public accounts which recognized that we seem to have an insoluble problem in terms of two different opinions. We found a way to present the books and I'm very pleased we're able to get the books to you and leave absolutely no question that in fact we have met the deficit targets, with or without the extra $1.5 billion. Minister Sousa: I may also add that you saw the tone of questioning today in the House. Obviously the opposition have wind of the fact that there's a dispute underway. We can't have that lack of confidence in the public realm. We need to ensure that people understand what is out, what our numbers mean, and what our financial state of affairs are. And that's one of the very reasons we came forward. If there are discussions being taken by the opposition with other offices of the legislature, that's unacceptable. We want to make certain it's available to all.
Q: Jeffords: So why not just accept the Auditor General's interpretation?	Sousa: It's not up to us to accept, as we must ensure that the public service accountants who are actually preparing the documents will also sign. At this point they do not and they will not because they disagree with the interpretation

	being provided, a new interpretation by the Auditor that our professional accountants do not agree with. So it's important for us to ensure – and we've directed them to provide the numbers – a way of regulation and keeping with the Auditor's request and enabling us time to provide for professional accountants to review the matter and effectively provide an opinion on behalf of all of us so we can operate effectively. But in the meantime, we've done what the Auditor General's asked, we presented the statements for the benefit of the public, and we want to make certain that everyone understands where we stand and where we must go.
Q: Benzie: Are you saying she is in cahoots with the opposition? You're saying that she's sharing information that the opposition [inaudible]?	Sousa: Not at all. I'm saying that the opposition has just come forward with questions in regards to this matter. We – and I don't want to have uncertainty as to what's happening in the financial state of affairs of the province. It's important for us to get this out quickly.
Q: Tumelty: Minister, I understand you had a meeting with the Auditor General this morning? Did you not? Or did your staff have a meeting with her staff this morning? And if so, did you mention you were going to have this press conference this afternoon?	Sousa: Well we did have a meeting with the Auditor General this morning and we discussed the issues before us. We referenced that the financial statements are what they are. And she cited that she wouldn't provide an audited opinion. And then we would say this is a matter of urgency and we want to make certain it's out there. I respect the office of the Auditor General and the work that she's doing. We have an obligation, of course, to ensure that we release the documents.
Q: Tumelty: But did she know that—	Sandals: We identified that we had an urgent need to get the financial statements to the public because of the fact that we had passed the legislative time limit, and that we did have an urgent need to get the information to the public.
Q: Tumelty: So you didn't tell her you were going to have press conference this afternoon?	Sandals: We told her that we had an urgent need to get the information to the public. Sousa: Thank you everybody.
	Statement by MacLeod: (Joined in progress) (inaudible) today it looks like we have an $11 billion dollar hole in the government's books and you could drive a Mac truck straight through it. This dispute, it appears that the government wants to continually undermine independent officers of this assembly and has produced unaudited, unverified documents to the assembly and through the media to the public, and as a result I think a good question to ask is what is the government continuing to hide? And secondly, who are we supposed to trust? The government with their fantastical numbers? Or the Auditor General who has an independent office for the people of the province, And with that, I'll pass it over to our finance critic, Vic Fedeli. **Statement by Fedeli:** Well, we'll take questions, I just wanted to basically add two comments. The Auditor General has raised concerns, and what does the government do?

	They issue an unaudited annual report. They cannot issue their Public Accounts, so it's apparent that they are trying to usurp the Auditor General by coming out with a series of unaudited, and calling it an annual report. There—This is not the time for an annual report. We're looking for the public accounts, which look in the rear-view mirror and tell us about the numbers that have actually been spent. When the Auditor finds an $11 billion hole in the budget, in the Liberal accounting, and the Liberal answer is to release this unaudited report, the (inaudible) obviously has concerns, and the Liberals have now changed the rules. They've come out with a one-time, time-limited version of what they're allowed to do. That is unacceptable, unparalleled, and really tells you the true state of our finances here in the province of Ontario.
Q: Benzie: But if these assets we're counting, these pension assets were counted as assets when the Tories were in power for 2001, 2002, 2003, would that mean that there was then—that we've been deluded about the debt even when you guys were in government? And the deficit, I don't believe you guys had a deficit the last year in office, but I think there was one in 2002.	MPP Fedeli: So, if the Auditor has decided that this is the set of rules that need to be followed, rather than be standing here—and you saw, they're in full-blown panic mode, there were 40 or 50 Liberal staffers here today, this isn't light-hearted as Ms. Sandals said, oh, this is just a little issue with paperwork. There are 40 or 50 staff here. This is full-blown panic mode. This is serious. The Auditor General says this is the way we are accounting, and the Liberals didn't agree with that. This is—if they're so convinced that they're right, why not meet with the Auditor General on an ongoing basis until it's resolved? If you're that confident, if they're convinced that their numbers are right, meet with the Auditor General and get through these numbers and get to an agreement. Don't pull a run, an end run with all of your team here and try to usurp her with an unaudited report. That is not standing behind your numbers. Now, I think, the accounting world will have even larger questions. If Minister Sousa thought, as he said in response to Lisa MacLeod's question this morning which seems to have prompted all this, if he thought that the accounting world will be calmed by what happened here today, I think we now realise you've got major forces at war.
Q: Benzie: How big do you think the deficit is? Do you think it's $5 billion? (inaudible)	Look, I'm waiting to hear what the deficit is from the true professionals, the Auditor General and our Financial Accountability Officer.
Q: Morrow: (inaudible) battles between the Auditor and the province? What's the (inaudible)	MPP MacLeod: So, I think we've got a problem here with the government whenever they've disclosed. Whether that's a scandal and there's an auditor general's report, whether that's on electricity (inaudible), they try to discredit this particular Auditor Genera, and they've done that several times, including Minister Chiarelli (inaudible) the current Auditor General despite her background in the energy sector that this was too complex. Secondly, let's be perfectly clear. A former independent officer of this assembly has become so disgruntled with the Liberals he had decided to run as a Progressive Conservative in a tough seat. But let's be perfectly clear here: This is a government that as early as

	last week had some of its government staffers contact our offices to indicate this would be a significant hole in their budget. They contacted us; it's not an independent officer contacting the Progressive Conservatives. We have known for close to a week now that the government was in this dispute. And we learned from them, we learned again over Friday, as I suggested in my question, that three senior bureaucrats with the government were planning to call the Auditor General partial. And I think this is just a continuation of a desperate government that has 18 months to go and sees historic lows in the Premier's popularity. I think it is down to 16% now and they are just trying to find a way to get out of a mess. And by the way they still haven't table the Public Accounts so there is still is a delay in the Financial Accountability Legislation that the government tables. I don't know if Vic has something else to add. Fedeli: More questions?
Q: Benzie: I think (inaudible) is a lot higher that 16%.	MacLeod: I think it is 17% with the Throne Speech. (laughter) Fedeli: At the end of the day, you can see again they are surrounded by 30, 40, 50 staffers here, full panic mode. They are trying to continue with the message about balancing. Now most of them have left the room because they don't, you know. They are trying to talk about the fact they are going to balance but it is artificial. The Financial Accountability Officer has told us the only way they are going to reach balance is by the one-time sale of assets and when that stops after the election, we plunge back into deficit. That is the message they don't want to see, don't want people to talk about, and that is why they are out at any opportunity they can to talk about this and I will call it again an artificial balancing of the budget. And they got caught again today.
Q: Jeffords: The FAO has warned about increased borrowing costs. The government has said today this will have no impact on the province's borrowing requirements. What do you think?	Fedeli: Well I am eager to see what the Auditor General tells us. Again, the Public Accounts is a rear view mirror. This looks backwards. It's their budget that we will look forward and give us forecasts. Public Accounts is only a rear-view mirror which tells us exactly what was spent. There is no ifs, no ands, no buts, no forecasting, it's numbers, just raw accounting. And that is the biggest concern. If it was a budget, and there is lots of fluff in a budget, you are forecasting, you might say something, you might say something else. This is Public Accounts. This is where the Auditor audits your numbers and the Auditor tells you looking back, here is the picture, here is the real picture. That is why there is a real problem here. So whether this will affect it on a go-forward, the budget will tell us that. They will have to put a number in that budget. That's fair. MacLeod: All good? Thanks everyone. Thanks Vic.

N.B.: Comments captured are not verbatim quotes	

Prepared by:

Guy Lepage, Senior Issues Analyst
Becky Dier-McComb, Senior Media Analyst
Sally Law, Media Analyst

From:	Birks, Ryan (MOF)
To:	Ize-Dukuze, Marilyn (MOF); Matthew Sylvain (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Tara McGrath (MOF); David McLean (MOF); Christopher Pearce (MOI); Marc Pichette (MOF)
Subject:	RE: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 9:41:37 AM
Attachments:	MOF General Q&As (OBEdits).docx PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm) (OBEdits).docx SCOPA 2016 Friendly QAs_v1 (2016-10-03) (OBEdits).docx SCOPA_Remarks_MOF Deputy Thompson_v9(OBEdits).docx

Hi Marilyn and Matthew,

Attached are OB/Fiscal Framework edits that reflect recent developments (i.e. yesterday's release of the 2015-16 Annual Report).

Can these edits please be incorporated ahead of the Joint MO/DMO SCOPA briefing at noon?

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

From: Ize-Dukuze, Marilyn (MOF)
Sent: October-03-16 6:56 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF); Sylvain, Matthew (MOF)
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).

- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal. In fact, 2015-16 marks the seventh year in a row that Ontario has beaten its annual deficit target.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

~~For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.~~

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.
- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.

- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.

- In May, both Quebec and California sold about 11% of the total allowances they each offered.

- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and

- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?

A. The reduction in the Net Debt-to-GDP ratio was primarily due to lower than forecast deficits and investment in capital assets in 2015–16.

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of August 31, 2016, $12.5 billion or 51 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.
This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

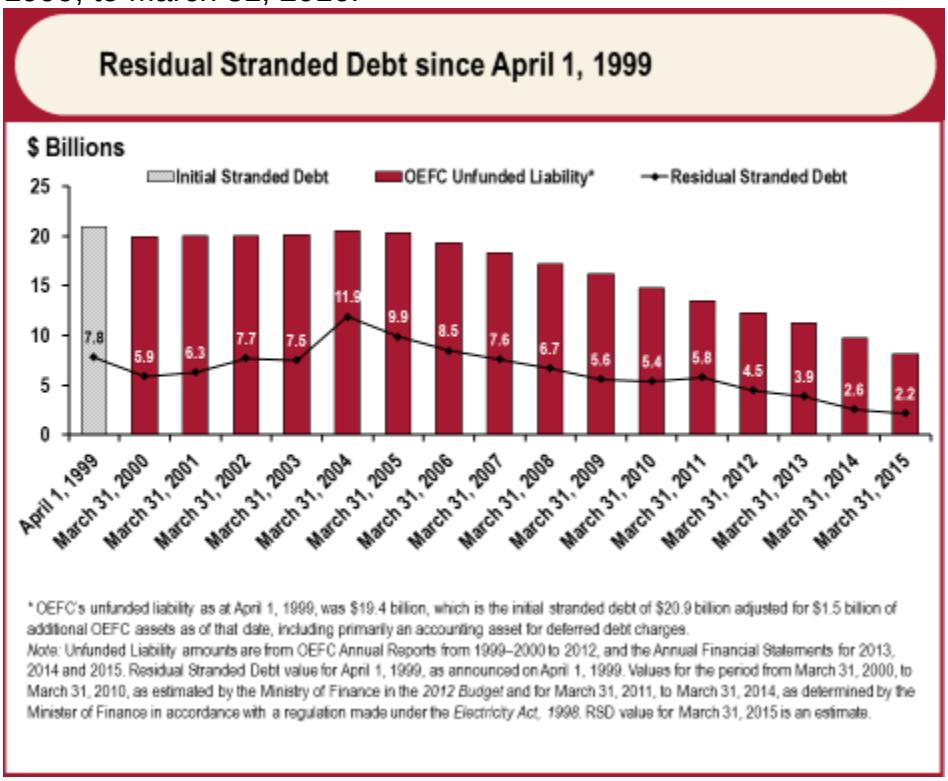
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.
- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.
- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.
- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.
- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.
- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.
- Keeping the public informed through transparent financial reporting remains a priority.
- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its annual deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General's office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.
- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.
- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.
- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.
- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.
- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.
- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.
- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.
- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.
- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
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Top Media Qs&As

Releasing Unaudited Financial Statements

1. **It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?**

   This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

   Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

   We believe that this accounting matter would benefit from additional discussions, information and consideration.

   The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

   In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. **Why are you releasing your financial statements without the Auditor approving them?**

   Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   Looking forward, as we prepare the 2016 Fall Economic Statement, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of this will need to be taken into consideration, along with other emerging economic and fiscal information.

   This is particularly important as we continue to track toward our commitment to balance the budget in 2017-18.
   ~~We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process.~~ **~~(TBC MOF)~~**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is

important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its annual deficit target~~s~~ and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its annual deficit target~~s~~ and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its annual deficit target~~s~~ and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its annual deficit target~~s~~ and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of

these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

The Ontario Rebate for Electricity Consumers would help make everyday life easier for Ontario families, small businesses and farms with electricity costs by providing a rebate that is equal to the eight per cent provincial portion of HST. This eight per cent rebate would appear directly on the consumer's electricity bill.

The government remains committed to balancing the budget by 2017-18 while continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

The government will provide further details and will update the medium-term fiscal outlook in the upcoming Ontario Economic Outlook and Fiscal Review.

~~We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.~~

Commented [MT(1]: Not factually correct. The government has not yet publically reported a fiscal outlook that incorporates the impact of this item.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor

General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit target~~s~~ and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its annual deficit target~~s~~ and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015

Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's

revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its annual deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to ~~1.9~~2.1 per cent, ~~less than the rate of inflation,~~ while investing in services that people rely on.

Commented [MT(2]: Between 2011-12 and actual 2015-16, program expense grew at an average annual rate of 2.1%. This is above the 1.5% average annual growth in CPI over the same period.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

Commented [MT(3]: Inaccurate. Green Investment Fund was not reported as an expense item in the unaudited PAs released yesterday.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, ~~and~~ $1.~~2~~ 1 billion in 2017-18 and $1.2 billion in ~~each of~~ 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. Three economic experts reviewed the Ministry of Finance's economic assumptions in February 2016 and found the assumptions to be reasonable. The three experts are from the Policy and Economic Analysis Program at the Rotman Institute for International Business, Rotman School of Management, University of Toronto; the Centre for Spatial Economics; and the Conference Board of Canada. ~~The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.~~

Commented [MT(4]: See 2016 Budget p. 281. The Economic Council no longer exists.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per

annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events

(e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability

needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Friendly Questions

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ratio~~n~~ for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last ~~five~~ seven years~~, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been~~. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.~~5~~ 2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. ~~By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.~~2015-16 marks the seventh year in a row that Ontario has beaten its annual deficit target.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 6, 2016

Word count: ~~974~~TBD

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Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

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I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government ~~has~~ continues to confirm~~ed~~ its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

This commitment builds on past success.

This week the government released Ontario's Annual Report and unaudited Consolidated Finance Statements for 2015-16, which show the Province's deficit for 2015-16 at $5.0 billion.

~~The Budget, which was released in February, forecast a deficit of $5.7 billion in 2015–16.~~

It ~~would~~ also marks the seventh year in a row that the province has beaten its annual deficit target.

And it ~~would~~ represents a $~~4.6~~5.3 billion improvement compared to the 2014–15 deficit.

~~By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.~~

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in 2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote, "The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels." End quote.

Commented [IM(1]: Language on this page, all the way to "Mood's said..." TBC pending Public Accounts.

Moody’s also forecast Ontario's debt to, and I quote: "fall marginally across the medium-term and, as importantly, for interest expense to remain manageable as well." End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

From:	Ize-Dukuze, Marilyn (MOF)
To:	Birks, Ryan (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Tara McGrath (MOF); David McLean (MOF); Christopher Pearce (MOI); Marc Pichette (MOF); Matthew Sylvain (MOF)
Subject:	RE: Latest SCOPA Comms Products
Date:	Monday, October 03, 2016 6:56:15 PM
Attachments:	MOF General Q&As.docx PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx SCOPA_Remarks_MOF Deputy Thompson_v9.docx SCOPA 2016 Friendly QAs_v1 (2016-10-03).docx

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Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.

- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.

- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.

- In May, both Quebec and California sold about 11% of the total allowances they each offered.

- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and

- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?

A. The reduction in the Net Debt-to-GDP ratio was primarily due to lower than forecast deficits and investment in capital assets in 2015–16.

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of August 31, 2016, $12.5 billion or 51 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.
This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

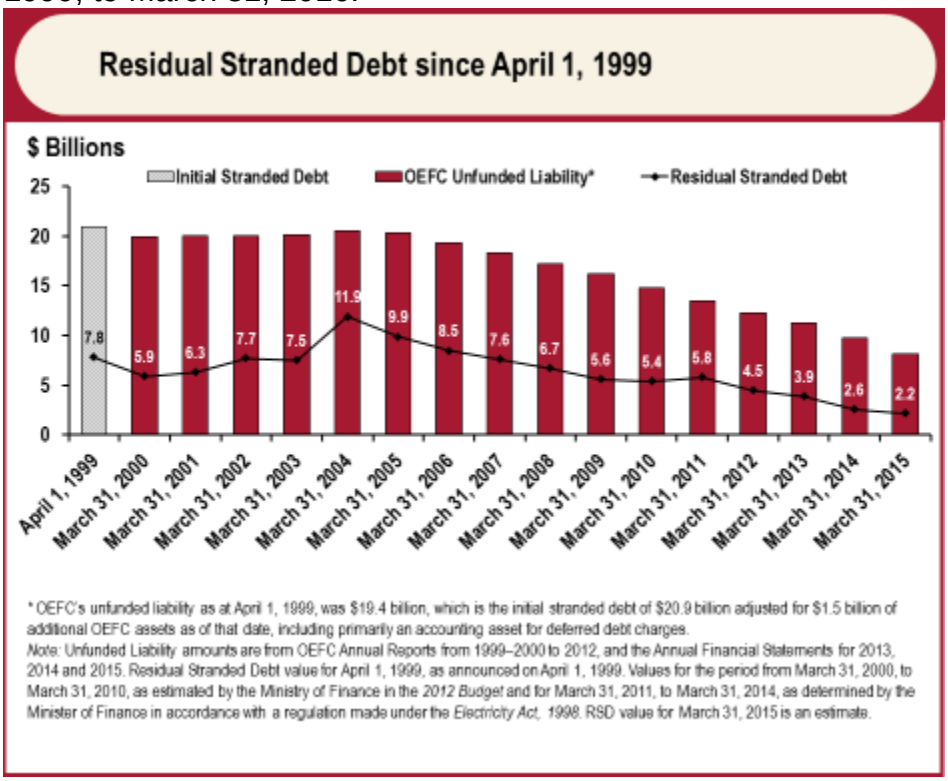
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 6, 2016

Word count: ~~974~~TBD

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Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

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I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government has confirmed its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

The Budget, which was released in February, forecast a deficit of $5.7 billion in 2015–16.

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If that deficit target is achieved, the deficit would be $2.8 billion lower than projected in the 2015 Budget.

It would also mark the seventh year in a row that the province has beaten its deficit target.

And it would represent a $4.6 billion improvement compared to the

2014–15 deficit.

By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.

The government is achieving these savings by managing program spending growth and by making strategically important financial decisions.

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in

2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote, "The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels." End quote.

Moody’s also forecast Ontario's debt to, and I quote: "fall marginally across the medium-term and, as importantly, for interest expense to remain manageable as well." End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

Friendly Questions

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

From:	Tomasz Bugajski
To:	"Ize-Dukuze, Marilyn (MOF)"; Christina Zhang; Ghufran Tarin (MOF); Matthew Sylvain (MOF); "Birks, Ryan (MOF)"
Cc:	Tara McGrath (MOF); David McLean (MOF); Christopher Pearce (MOI); Marc Pichette (MOF)
Subject:	RE: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 11:52:40 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm)_SIFBmarkup5.docx

Sorry for the delay. Here are our edits to the TBS media Q&As.

Tomasz Bugajski
EA & Special Policy Advisor
Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Tomasz Bugajski
Sent: Tuesday, October 04, 2016 10:59 AM
To: 'Ize-Dukuze, Marilyn (MOF)' <Marilyn.Ize-Dukuze@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Hi Marilyn – here are our edits to Q5 of the friendlies. We still have edits to the TBS media package Q&As, which I'll send shortly.

Tomasz Bugajski
EA & Special Policy Advisor
Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: Re: Latest SCOPA Comms Products

Thanks all, appreciate the turnaround - can we get outstanding edits by 11:30am at the latest?

We have to share digital copies with WSIB who will be calling into the meeting and Bud Sec is short staffed for printing.

Thanks,
Marilyn
ph. 416.326.8529 | bb. 416.302.3609

Envoyé de mon smartphone BlackBerry 10 sur le réseau Rogers.

De: Christina Zhang
Envoyé: mardi 4 octobre 2016 09:57
À: Tarin, Ghufran (MOF); Bugajski, Tomasz (OFA); Sylvain, Matthew (MOF); Birks, Ryan (MOF); Ize-Dukuze, Marilyn (MOF)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Objet: RE: Latest SCOPA Comms Products

Ditto.

From: Tarin, Ghufran (MOF) [mailto:Ghufran.Tarin@ontario.ca]
Sent: Tuesday, October 04, 2016 9:55 AM
To: Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

OEP is reviewing the materia and we will get back to you as soon as we are done.

Thanks,
Ghufran

From: Tomasz Bugajski [mailto:Tomasz.Bugajski@ofina.on.ca]
Sent: October-04-16 9:47 AM
To: Sylvain, Matthew (MOF); Birks, Ryan (MOF); Ize-Dukuze, Marilyn (MOF); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Subject: RE: Latest SCOPA Comms Products

Yes, they're coming. Will get them to you ASAP.

Tomasz Bugajski
EA & Special Policy Advisor
Corporate and Electricity Finance Division
Ontario Financing Authority
416-325-0924 | tomasz.bugajski@ofina.on.ca

From: Sylvain, Matthew (MOF) [mailto:Matthew.Sylvain@ontario.ca]
Sent: Tuesday, October 04, 2016 9:46 AM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Marilyn and Ryan, yes I can input them.

Tomasz, Christina, will there be other edits from OEP and the OFA I should anticipate to them as well?

Thanks,

Matt

From: Birks, Ryan (MOF)
Sent: October 4, 2016 9:41 AM
To: Ize-Dukuze, Marilyn (MOF); Sylvain, Matthew (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi Marilyn and Matthew,

Attached are OB/Fiscal Framework edits that reflect recent developments (i.e. yesterday's release of the 2015-16 Annual Report).

Can these edits please be incorporated ahead of the Joint MO/DMO SCOPA briefing at noon?

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

From: Ize-Dukuze, Marilyn (MOF)
Sent: October-03-16 6:56 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Pichette, Marc (MOF); Sylvain, Matthew (MOF)

Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.
- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.
- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.
- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.
- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.
- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.
- Keeping the public informed through transparent financial reporting remains a priority.
- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General's office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.
- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.
- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) 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 totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.
- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.
- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.
- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.
- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.
- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.
- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.
- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is

different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. **On what exactly do you disagree with the Auditor?**

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for

users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from qualifying asset ~~optimization activities~~sales, including the broadening of ownership of Hydro One and real estate sales, to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

The Ontario Rebate for Electricity Consumers would help make everyday life easier for Ontario families, small businesses and farms with electricity costs by providing a rebate that is equal to the eight per cent provincial portion of HST. This rebate would appear directly on the consumer's electricity bill, resulting in savings of about $130 a year or $11 per month for a typical Ontario residential consumer.

Commented [TB1]: Added by Tara

Commented [TB2]: Added by OFA-CEFD

The government remains committed to balancing the budget by 2017-18 while continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

The government will provide further details and will update the medium-term fiscal outlook in the upcoming Ontario Economic Outlook and Fiscal Review.

Commented [TB3]: Added by Tara

~~We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.~~

Commented [TB4]: Removed by Tara

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor

General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015

Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to ~~improve the company's long-term performance and~~ unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will also create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's

revenues by about $2.4 billion. The ~~gain~~ fiscal benefit associated with d~~D~~eferred t~~T~~ax b~~B~~enefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. ~~The gains from these share sales will be credited to the Trillium Trust over time as the loans are repaid.~~

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion ~~being~~ that has been credited to the Trust in connection with the sale of Hydro One shares in 2015~~at this time~~ does not include amounts associated with shares purchased by the ~~Power Workers' Union (~~PWU~~)~~ and the ~~Society of Energy Professionals (~~SEP~~)~~ trusts using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances. ~~While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an a~~

Asset sales provide ~~includes~~ upfront gains that the government will reinvest into public infrastructure. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

Through this initiative, the Province expects to generate direct impacts of $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward.; and $5 billion to reduce debt.

As shown in Volume 1, the Province has dedicated $3.2 billion in net revenue gains raised from the sale of Hydro One shares in 2015 to the Trust, bringing the total balance of the Trust to over $4.5 billion.

Net revenue gains from the offering completed in April 2016 as well as from future offerings will be dedicated to the Trillium Trust.

Whileith the broadening of ownership of Hydro One, the Province will still continue to benefit infrom Hydro One as an on-going revenue generating asset, including any future growth, based on the Province's proportionate ownership share. means that there may be an impact on revenues over the longer term, the fiscal impact of an

The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.
As at March 31, 2016 the Province owned about 84 per cent of Hydro One and following the April 2016 offering the Province now holds about 70 per cent of Hydro One.

Following future sales the province would retain 40 per cent of Hydro One which would continue generating revenue for the Province.

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the

Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

Commented [DS5]: Please see the answer to question 45, which is a similar Q&A. Trying to keep things consistent.

Commented [DS6]: Would also need to be reviewed by OEP.

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

~~Taxation r~~Revenues also reflected higher than expected ~~a one-time increase in Electricity payments-in-lieu of taxes~~net revenues related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure

they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. The recommendations included~~is would involve~~ an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings~~ and~~, the partial sale of Hydro One, and the sale of LCBO head office lands been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO – , the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 and the June 2016 sale of the LCBO head office lands will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support transit, transportation and priority infrastructure projects under Moving Ontario Forward.

The deferred tax benefit provides an up-front revenue gain to the Province, which also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales. This does not affect the total cash the Province receives. By dedicating the fiscal benefit from the deferred tax benefit to the Trillium

Trust, the government ensures that the Trust will receive the full benefit of the value created from broadening Hydro One's ownership.
~~TBC OPCD~~

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $~~3.5 billion~~ 31.5 billion would be dedicated to the Moving Ontario Forward plan over ten years. Of that amount, ~~So far,~~ only $~~1.355~~5.7 ~~billion has been dedicated to the Trillium Trust~~would come from asset optimization. How do you propose to supply the ~~$2.15 billion~~ difference?

Commented [DS7]: Would need to also be reviewed by OTB

In addition to unlocking the value of Provincial assets to support investments in infrastructure, Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- ~~The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.~~
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other

activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. ~~Why aren't the additional $2.2 billion in~~The Public Accounts shows the net revenue gains from the sale of Hydro One shares, including a credit to the Trillium Trust. What about the other revenues dedicated to the Moving Ontario Forward plan – are they reported in the Public Accounts?

Commented [DS8]: Would need to also be reviewed by OTB

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. ~~In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization.~~ The remaining ~~$2.2B in 2014-15~~dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2015~~4~~-1~~6~~5 Public Accounts.

Commented [DS9]: Assuming this is correct

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public

infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Christina Zhang
Subject:	RE: New Brunswick adopts new pension accounting approach (CIBC Capital Markets)
Date:	Tuesday, October 04, 2016 9:44:47 AM

Hi Gadi

On the face of it that's what it looks like, based on the auditor's recommendation NB, recognized that their pension plans were shared and given that the plans were in a net obligation position took the hit for the increase in the liability.

One could assume that if the plans were in a net asset position then the reverse would occur and the Province's bottom line would benefit. Unfortunately, page 47 of the New Brunswick's CFS has the following assertion in the notes. "The Province records the value of plan net assets as nil when the plans are in a net asset position".

In other words for whatever reason NB has taken the position that net obligations will be recognized but not net assets. I wonder why and will request Cindy to find out from the Province's PC when she meets him next.

Thanks

Ken k

From: Gadi Mayman
Sent: Tuesday, October 04, 2016 12:22 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: New Brunswick adopts new pension accounting approach (CIBC Capital Markets)

I know it's a complex subject, but are NB and their AG going in the opposite direction of where our AG is?

Begin forwarded message:

> **From:** CIBC CM Macro Strategy <Mailbox.CIBCMacroStrategy@cibc.com>
> **Date:** October 3, 2016 at 10:57:28 AM EDT
> **To:** Undisclosed recipients:;
> **Subject: New Brunswick adopts new pension accounting approach (CIBC Capital Markets)**
>
> **CIBC Capital Markets**
> **Macro Strategy Research**
>
> ## New Brunswick adopts new pension accounting approach (October 3, 2016)
>
> For Fiscal 2015-16, New Brunswick received an unqualified opinion from the auditor general. This is a reversal from the previous year when the province was flagged for their

'defined contribution accounting' approach. New Brunswick transitioned its four largest defined benefit pension plans to a shared risk model (i.e. target benefit plans) in order to improve the plans' long-term "sustainability, affordability and security while ensuring inter-generational fairness." The plans represented about 95% of its pension liabilities. New Brunswick's Auditor General concluded, however, that the "financial statements do not reflect the risk inherent in the design of a Shared Risk Pension Plan." In the end, the Auditor General concluded that there was not enough analysis done to justify a change in accounting treatment from defined benefit to defined contribution, whereby the province could de-recognize its obligations in the financial statements. It is the first time in 17 years that New Brunswick has received a qualified opinion.

Effective April 1, 2015, the Province retroactively changed its accounting policy for its Target Benefit Pension Plans. The Province previously accounted for these plans as defined contribution plans, and is now applying defined benefit and joint defined benefit accounting treatment. As at 31 March 2016, the value of the Province's share of accrued benefits for all target benefit pension plans exceeded the value of the plan assets resulting in an actuarial benefit liability of $374.2mln ($-113.7mln 2015). This change in the accounting policy has caused the Province's 2015 consolidated financial statements to be restated by an increase of $221.3mln in closing net debt, accumulated deficit and pension liability, and a decrease of $3.4mln in pension expense. Opening net debt and accumulated deficit as at April 1, 2014, also increased by $224.7mln. We consider this modest as it only represents an increase of 1.7% to restated beginning of year net debt for 2016 (1.8% for 2015).

We consider this to be a positive development in New Brunswick's accounting practices as the province is no longer derecognizing its pension obligations. The Auditor general feels the same way, thus, restoring the unqualified opinion for the province.

For more information on Canadian government sector accounting practices, please refer to our Macro Strategy research note "Accounting for Government Transfers, August 8, 2016" by clicking here[cibcmacro.com]

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: PA
Date: Tuesday, September 27, 2016 8:50:45 AM

Good point re the IFRS, I guess reading between the lines in the email chain the Government is accepting the AG's position and the reference to legislation is to allow the accumulated deficit at the end of 15-16 to be revised upwards by 10.6 given that OPCD and Deloitte indicate that this revision is not in accordance with PSAB.

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, September 27, 2016 7:56 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: PA

Not to mention the IFRS issue next year. I think the indication we're getting from Scott's email is to go with my second option and reverse the whole thing out for our FES calculations for 16-17 onwards.

From: Ken Kandeepan
Sent: Tuesday, September 27, 2016 7:48 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: PA

If the PA net debt includes the 10.6 it's going to be very difficult to back that out in the FES. You can't have the FES on a different starting basis from the published accounts of the Province.

There is some flexibility however going forward in the sense that we can exclude this adjustment for the annual deficit forecast for 16-17 onwards on the basis that the issue is still being reviewed.

Having said that I see no indication that the AG will be willing to reverse her position for the 16-17 PA. At which time the issue will be whether to accept her position for good or take the qualification.

Thanks

Ken k

On Sep 27, 2016, at 7:20 AM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

Thoughts?

Original Message
From: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Sent: Tuesday, September 27, 2016 7:19 AM
To: Scott Thompson (CAB); Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF)
Subject: Re: PA

I agree on the deficit, I'm still a little unsure on the treatment of net debt. Do we back out the full 10.6, just the 9.1 opening adjustment and not the 1.5 that goes into the 15-16 deficit, or do we leave the full 10.6 in? I suppose it would depend on what the reg says about whether the 15-16 PA amounts are permanent, or that they would be reversed going forward if the process determines that this interpretation is incorrect, and we then proceed with the 16-17 and 17-18 numbers as if they will be backed out.

Original Message
From: Thompson, Scott (MOF)
Sent: Tuesday, September 27, 2016 6:50 AM
To: Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
Subject: Re: PA

Am looping in Gadi and Tim to this discussion in case they have an alternate view. My understanding has been that if we are clear in the regulation that this treatment is for the fy 15-16 only and that there is a process underway to develop the treatment for future years, then we can continue the course we were already on for FES and Budget for 16-17 year and beyond. It may be difficult to explain, but I think we have a solid argument on deficit numbers. Net debt may be more difficult to explain because we will have already added the 10.6 bn in for 15-16 and we'll have to back it out of net debt for FES.
Thanks
Scott

Sent from my iPad

> On Sep 27, 2016, at 12:02 AM, Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca> wrote:
>
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>
> A point of clarification prior to tomorrow morning's meeting with Premier. Should the government agree to regulated accounting pursuant to the AG's interpretation for a one year period (ie 15-16)

resulting in a $5B deficit for the last fiscal year, what is its reporting obligations in the FES for 16-17 through to 18-19?

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Christina Zhang
Subject:	RE: PA
Date:	Tuesday, September 27, 2016 9:05:44 AM

Thanks very interesting, on one hand legislation needs to be passed to avoid qualification, on the other hand the previous passage of legislation allowing OPG and H1 to adopt US GAAP may result in a qualification next year.

Ken K

From: Gadi Mayman
Sent: Tuesday, September 27, 2016 9:03 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: PA

Two choices are going to be presented at the meeting they're having today.

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To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: PA

Good point re the IFRS, I guess reading between the lines in the email chain the Government is accepting the AG's position and the reference to legislation is to allow the accumulated deficit at the end of 15-16 to be revised upwards by 10.6 given that OPCD and Deloitte indicate that this revision is not in accordance with PSAB.

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>
> Ali Ghiassi
> Chief of Staff
> Minister of Finance
> 416.948.5409

From:	Jaikaran, Ronald (MOF)
To:	Patrick Laughton (MOF); Alana Anderson (MOF)
Cc:	Birks, Ryan (MOF); Christina Zhang; Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject:	RE: Pension Extract
Date:	Saturday, October 29, 2016 11:25:23 AM
Attachments:	image001.png image002.png

I already set up some time on Tuesday. But if we can get everyone together on Monday that would be great too.

Cheers,
Ron

-----Original Appointment-----
From: Jaikaran, Ronald (MOF) **On Behalf Of** Schuurman, Tim (MOF)
Sent: October-29-16 11:08 AM
To: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Petsche, Nadine (TBS); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); @FIN-R-TOR.7QueensParkCres.Trillium.Boardroom (MOF)
Subject: FES Narrative | Pension Language Discussion
When: November-01-16 11:00 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: Trillium Boardroom | Frost South, 7th Floor

From: Laughton, Patrick (TBS)
Sent: October-29-16 11:23 AM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Fw: Pension Extract

This is very helpful - thank you.

Nermina and I will connect with folks on Monday to organize the meet.

Hope everyone is having a good weekend.

P.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)

Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

- Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.
    - This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

- Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected."

- Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

- Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.

- Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman

Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

Wondering if, as part of landing today's distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management) that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

- Tara can help locate all the references in the fiscal chapter
- Ken K can help locate all the references in the debt chapter
- Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173


Office of the Budget
MINISTRY of FINANCE


Office of the Budget
MINISTRY of FINANCE

From: Christina Zhang
To: Ronald Kwan; Ken Kandeepan
Subject: RE: Public Accounts
Date: Monday, October 03, 2016 1:26:21 PM
Attachments: PA2015 - Media Products - No Opinion w Reg (Oct 3 12 10 am).docx
FW IMPORTANT Document posting schedule.msg

Hi Ron,

Please find attached the draft comms materials that circulated as of 12:10am this morning. Both Ministers were meeting with the AG this morning. The last we heard from DMO was that there was to be a media advisory by PO at 1pm today.

Nothing yet though.

Thanks,
Christina

From: Ronald Kwan
Sent: Monday, October 03, 2016 1:03 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Public Accounts

Hi,

Just wanted to check in on any updates on the coming Public Accounts and any draft comms materials that may be available.

Thanks,
Ron

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around a complex accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report which includes the unaudited Consolidated Financial Statements we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection. As I assured in the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then reviews this.

Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015-16 Public Accounts. We did so because this year, the Auditor General the Province' with a new interpretation of public sector accounting standards as related to the accounting treatment of jointly-sponsored pension plans and are subject to a range of interpretations.

Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences of opinion.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two

years, resulting in unqualified – or clean audit opinions. Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances as soon as possible.

The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

It is also important to stress that the two pension plans in question – the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan – are both healthy and well funded.

Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

Our officials and professional accounting staff will continue to work with the Auditor General's office to resolve this complex accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, statutory authority has been used to regulate the accounting treatment for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, public servants could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans. The regulation was needed to allow civil service accountants to sign off on the Public Accounts without compromising their professional credentials.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected
Province Remains Committed to Balance the Budget by 2017-18

News

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of Province's financial statements.

A regulation is required to allow civil service accountants to sign off on the financial statements without compromising their professional credentials. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements.

The statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by

6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was faster than that of the United States and the G7.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this national discussion. The Province will also consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTE

"The Annual Report and Consolidated Financial Statements for 2015-16 show that our government's plan to achieve fiscal balance by 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario."

- Liz Sandals, President of the Treasury Board

"The government is dedicated to a fiscally sound approach to managing the Province's finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues."

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- The Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 Financial Statements [update hyperlink]
- Explore supplementary information available through new data visualization tools [insert hyperlink]
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

www.ontario.ca/treasury-board-secretariat
Disponible en français

Newsroom Backgrounder

Ontario's 2015-16 Financial Statements

The 2015-16 Annual Report and Consolidated Financial Statements show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, and $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

Accounting Standards

Treasury Board Secretariat prepares the financial statements of Ontario in accordance with the legislation and accounting principles and standards for governments recommended by the Public Sector Accounting Board.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting.

The Release of Ontario's 2015-16 Financial Statements

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets, a topic subject to a range of interpretations.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, the provincial Cabinet approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General in the last ten days.

The effect of the legislation is to reflect the fiscal impact of the AG's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not provided an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that it can table the Public Accounts with the Lieutenant Governor in Council.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard for the treatment of pension assets. Ontario will be part of this

national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies practices, has acknowledged the consistent basis used by Ontario for its Budget, Estimates and Public Accounts as a best practice to supporting transparency and accountability.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables.
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts.

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing 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 totalling up to at least $16.50 per hour by April 1, 2016.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance and expand access to high quality college and university education.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province’s history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province’s history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.

- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.

- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional staff and the Auditor General continue to have differences of interpretation

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new

interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion. Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. **If PSAB is studying this issue, are other Canadian jurisdictions dealing with this as well?**

   No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

   Nadine to provide response re BC / New Brunswick

4. **What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?**

Nadine to provide response

5. **Are you saying the Auditor General is misinterpreting PSAB standards?**

   Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of interpretation.
   Nadine to provide response

6. **If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?**

   If the Auditor General had agreed with us, the province's deficit for 2015-16 would have been $3.5 billion.

7. **The province has been treating pensions the same way since 2001. When did the Auditor tell you about this new accounting treatment?**

   Well into this year's audit, the AG came to a view which she communicated to the Province on September 13.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial consideration before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   No. However, the treatment applied is consistent with the fiscal outcome proposed by the Auditor General.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

We wanted to allow the Auditor General time to provide an audit opinion on the Province's financial statements. Given we have not received an opinion, we felt it was in the public interest to release our financial statements in order to be open and transparent.

12. On what exactly do you disagree with the Auditor?

This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

In preparing the Annual Report and Consolidated Financial Statements, professional public servants and the Auditor General have engaged in discussions regarding the treatment of these pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General in the last 10 days.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

13. If you think you're right, why would you change the numbers?

We are releasing now to ensure transparency about the province's financial position. Our results are consistent with the fiscal outcome proposed by the Auditor General. We also want to be transparent that there is still a disagreement about the treatment of pension assets.

We believe it's in the public that there be no disagreement in order to finalize the numbers. We will continue to work with the Auditor General to resolve this matter.

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. Our Financial Statements reflect the fiscal outcome proposed by the Auditor General.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The government is now including five-year trends in its Public Accounts. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can table the Public Accounts with the Lieutenant Governor in Council as soon as possible

TBC Legal

19. Has this ever happened before in Ontario? Anywhere else in Canada?

This has never happened before in Ontario.

TBC Nadine re other experience in Canadian jurisdictions

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

We are presenting the numbers that the Auditor General requested.

In the course of developing its 2015-16 financial statements, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

This is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review it. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to expedite the tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Public Service Pension Plan is nearly fully funded at 98%.

Both plans exceeded their target long-term rates of return in 2015. The Public Service Pension Plan achieved a 6.14% return and the OPSEU Pension Plan achieved an 8.0% return.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

TBC OPCD

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

We have been working with the Office of the Auditor General to try to come to an agreement on this issue since it was first raised.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to

ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes. The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.
The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult

individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Answer below needs fact check by OPCD

Our financial statements include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.
The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the AG's numbers be?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the house there will be delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials continue to work with the AG's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

36. Clearly the government is in a spat with the AG – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the AG?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the AG's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current

Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

TBC Nadine

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial results provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

TBC Legal on question of whether it is legal for AG not to issue an opinion

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this complex accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the AG – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)

- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual

deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

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

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense 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, 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 increased by $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 $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, 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 offset by:

- Education sector expense 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 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.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted 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. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20.6 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

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

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

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.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Ontario.ca landing page

Ontario's unaudited 2015-16 Annual Report

The Annual Report looks back at the government's revenues and expenses. It compares and explains the province's financial performance with the goals outlined in the budget.

Overview

The unaudited 2015-16 Annual Report presents the government's financial statements and provides a picture of how finances were managed over the last fiscal year (April 1 to March 31).

The unaudited Annual Report is made up of:

- a financial statement, discussion and analysis
- consolidated financial statements
- three supporting volumes

As part of our Open Government initiative, you can find additional tools, features and tables to make the government's financial information easier to access, use and understand.

Financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

Read the financial statement, discussion and analysis (2015-16) <insert link>

See the government's five-year trends <insert link>

Unaudited Consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

Volume 1: ministry statements and schedules (unaudited)

Volume 1 contains ministry statements, detailed schedules of debt and other items. This volume details where government revenue comes from, including taxes, non-tax revenue and income from enterprises (such as the LCBO), alongside the expenses of ministries.

Read Volume 1 (2015-16) <insert link>

This graphic visualizes ministry spending information in Volume 1 of the unaudited 2015-16 Annual Report, not including financial reimbursements or recoveries. Financial reimbursements or recoveries include internal chargebacks between ministries for shared services, as well as reimbursements from external sources for the delivery of services. As a result, some amounts may differ from those in the unaudited Annual Report.

[data tree map visualization]

Select a ministry to learn more about their spending. You can also download the 2015-16 Annual Report data to create your own visualization.

Get Volume 1 data <insert link>

Volume 2: financial statements of government organizations and business enterprises

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Read Volume 2 (2015-16) <insert link>

Volume 3: detailed schedules of payments (unaudited)

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Read Volume 3 (2015-16) <insert link>

2015-16 Annual Report: financial statement, discussion and analysis

The financial statement, discussion and analysis is a high-level summary of the fiscal year's results. It includes financial statements, analyzes the state of the province's finances and outlines achievements for the fiscal year.

See the government's five-year trends <insert link>

2015-16 Annual Report: unaudited consolidated financial statements

These statements compare government revenues to its expenses (the cost of providing programs and services and financing debt). The result is the annual surplus or deficit. These statements also display the budget plan and last year's numbers for comparison.

Read the consolidated financial statements (2015-16) <insert link>

2015-16 Annual Report: Volume 2

Volume 2 contains the individual financial statements of government organizations, business enterprises and other miscellaneous financial statements. These organizations and enterprises include agencies, such as Metrolinx and Hydro One, and organizations like the Workplace Safety and Insurance Board.

Volume 2 PDFs

- Read Volume 2a: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2b: Financial Statements of Government Organizations (2015-16) <insert link>
- Read Volume 2c: Financial Statements of Government Business Enterprises, Trusts and Miscellaneous statements (2015-16) <insert link>

Government Organizations Summary

<Insert DATA TABLE from “PA vol2 government organizations MMDDYYYY.csv” here>

Government Business Enterprises Summary

<Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” >

Trusts Summary

<Insert DATA TABLE from “PA vol2 government business enterprises MMDDYYYY.csv” >

2015-16 Annual Report: Volume 3

Volume 3 contains the transfer payments made by ministries to recipients that are not a part of the Government of Ontario, such as hospitals, community agencies and schools. It also includes payments to vendors for goods and services, such as third-party staffing agencies, consultants and telecom providers.

Download the PDF for Volume 3: Detailed Schedules of Payments <insert link>

Detailed Schedules of Payments

<Insert DATA TABLE from “PA vol3 MMDDYYYY.csv”>

From: Pearce, Christopher (MOF) [Christopher.Pearce@ontario.ca]
To: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Christina Zhang [Christina.Zhang@ofina.on.ca]; Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]
Subject: FW: IMPORTANT: Document posting schedule
Date: Monday, October 03, 2016 11:53:52

FYI for today re: Public accounts.

-----Original Message-----
From: Orencsak, Greg (TBS)
Sent: October-03-16 11:34 AM
To: Betzner, Lynn (CAB); Maddock, Michael (CAB); DiMuzio, Sofie (TBS); MacKenzie, Rebecca (OPO); Killorn, Bill (OPO); Jancik, Mike (TBS); MacIntyre, Kyle (TBS); Ghiassi, Ali (MOF); Prins, Sebastian (TBS); Ostergard, Matt (TBS); Ingram, Kelsey (MOF); Moore, Brynne (MOF); Bardeesy, Karim (OPO); Bossin, Bryan (OPO); Tedesco, Lauren (TBS); Pichelli, Jason (TBS)
Subject: IMPORTANT: Document posting schedule

Here is my understanding of what needs to happen based on discussion now with senior PO (Bevan/Rebecca/Karin/Bill).

Media advisory by PO at 1.

Financial statements and volumes tabled with Clerk at 1:55. Lead: TBS comms

Financial statements and volumes posted online at 1:55. Lead: CO / TBS Comms

TBS MO sends email to all MPPs with links by 2:00. Lead: TBS MO

Tech briefing starts at 2:00

News release and backgrounder released and posted when Ministers' media avail begins. Lead: CO / TBS Comms

From:	Ize-Dukuze, Marilyn (MOF)
To:	Birks, Ryan (MOF); Kyle MacIntyre (MOF); Travis Coulter (TCU); Ghufran Tarin (MOF); Tomasz Bugajski; Christina Zhang; Patrick Laughton (MOF); Law, Rex (TBS); Mercedes Sawosch (CAB); Jason Wesley (MGS)
Cc:	David McLean (MOF)
Subject:	RE: SCOPA 2016 | Briefing Binders | Materials
Date:	Wednesday, October 05, 2016 10:52:24 AM
Attachments:	Tab 5.1 MOF Questions and Answers.pdf Tab 7.2 TBS CINs.pdf CINS - Public Sector Accounting Board Initiatives.docx CINS - SCOPA Use of Legislated Accounting Standards 2015_v5.docx CINS - Public Service Non-Pension Retirement Benefits ip.docx CINs - Rate Regulated Accounting.docx
Importance:	High

Attached are the missing items for you to add in your Exec's binder.

- Tab 5.1. MOF Questions and Answers
- Tab 7.2. TBS CINs & Key Highlights **(This PDF was already added in the binders you have, however, I have attached some additional CINs that were still missing and were not included in the 7.2 pdf attached.)

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Tuesday, October 4, 2016 8:40 PM
To: Tarin, Ghufran (MOF); DiMuzio, Sofie (TBS); Coulter, Travis (TBS); Schuurman, Tim (MOF); Sylvain, Matthew (MOF); Morris, David (TBS); Ize-Dukuze, Marilyn (MOF); McGrath, Tara (MOF); Orencsak, Greg (TBS); Lewis, Brian (MOF); Lewis, Paul (MOF); Kwan, Ronald (OFA); Amara, Bruno (MOF); Arruda, Artur (TBS); Zhang, Christina (OFA); Kandeepan, Ken (OFA); Simone, Nicole (TBS); Morier, Rebecca (MOF); Ostergard, Matt (TBS); Bugajski, Tomasz (OFA); Law, Rex (TBS); Sullivan, Bryant (TBS); Lone, Dianne (MOF); Wesley, Jason (TBS); MacIntyre, Kyle (TBS); Pearce, Christopher (MOF); Sawosch, Mercedes (TBS); McLean, David (MOF); Kearney, Heather (MOF); Tedesco, Lauren (TBS); Hughes, Karen (TBS); Baig, Saad (MOF); Birks, Ryan (MOF); Petsche, Nadine (TBS); Laughton, Patrick (TBS); Veinot, Cindy (TBS); Mayman, Gadi (OFA)
Cc: Thompson, Scott (MOF); Dale, Lindsay (MOF)
Subject: SCOPA 2016 | Briefing Binders | Materials
Importance: High

Hi –

Please see attached materials for the SCOPA Briefing Binders. These incorporate edits from the 12pm discussion. Physical copies of the binders will be available tomorrow at 9am, in the DMO suite at Frost South.

Please refer to the updated TOC to navigate the products.

Unfortunately, the following items remain outstanding from these attachments, but will be added by your EA tomorrow morning once finalized:

- Tab 5.1. MOF Questions and Answers
- Tab 7.2. TBS CINs & Key Highlights

Thanks,

Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.

- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.

- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of September 30, 2016, $13.3 billion or 54 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of September 30, 2016, the Province had borrowed $13.3 billion for the fiscal year. Approximately 69 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The government recognizes its commitment to electricity ratepayers under the Electricity Act, 1998, including a benefit to OEFC arising from the sale of Hydro One shares to contribute to the continuing reduction of its unfunded liability.

Under the Electricity Act, OEFC receives a financial benefit equivalent to the proceeds of sale, net of the acquisition cost of the shares, transactions costs, other obligations of the Crown, and amounts in respect of Hydro One already dedicated to OEFC.

Following the completion of any share sales, the Minister of Finance would assess associated impacts as part of the annual determination of residual stranded debt and the estimated timing of its retirement.

In addition, under the Electricity Act payments-in-lieu of tax system (PILs), which is in place for tax-exempt utilities and which follows the ordinary corporate tax system, when a PILs-paying utility exits the PILs regime, it has to assess its final PILs liability based on a deemed disposition of assets.

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. With the broadening of ownership in Hydro One where the Province's ownership of Hydro One below 90 per cent, the company ceases to be

exempt from federal and Ontario income taxes and becomes subject to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

2014-15 was the eleventh consecutive year that the stranded debt was reduced, with OEFC results showing an excess of revenue over expense of $1.6 billion. From its peak in 2003-04 to March 31, 2015, OEFC paid down stranded debt by an estimated total of about $12.3 billion, reducing stranded debt to $8.2 billion as at March 31, 2015.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in

2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Residual Stranded Debt

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

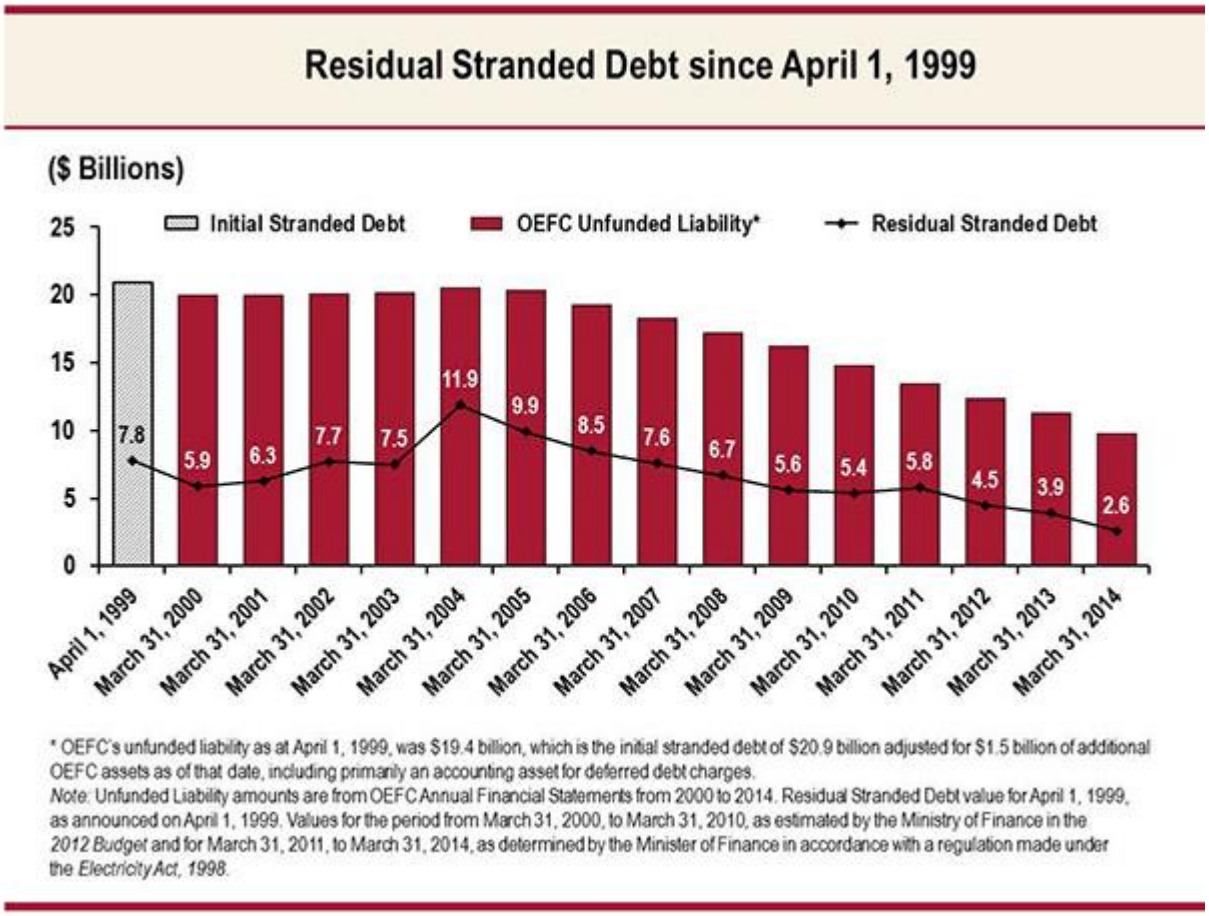
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2014 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.6 billion as at March 31, 2014. This was a decrease of $1.3 billion compared to residual stranded debt of $3.9 billion as at March 31, 2013, and was a total estimated decrease of $9.3 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2014.



Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What is the government doing to extract value from any government assets?

A: With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered its final recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. The recommendations included an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including LCBO and OPG's head office properties, and the Seaton and Lakeview lands.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Broadening Hydro One Ownership

Q: Why are you selling off Hydro One?

A: The government is broadening the ownership in Hydro One to unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will also create an improved company that will operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

Q: What is the current status of broadening Hydro One ownership?

A: The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: Asset sales provide upfront gains that the government will reinvest into public infrastructure. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

Through this initiative, the Province expects to generate direct impacts of $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward; and $5 billion to reduce debt.

With the broadening of ownership of Hydro One, the Province will still continue to benefit from Hydro One as an on-going revenue generating asset, including any future growth, based on the Province's proportionate ownership share.

Following future sales the province would retain 40 per cent of Hydro One which would continue generating revenue for the Province.

Q: The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

A: I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Trillium Trust

Q: What's the status of the funds in the Trillium Trust?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit.

The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion had been dedicated to the Trillium Trust as at March 31, 2015.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As stated in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- GO Transit Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. As this preliminary work is completed and construction activity becomes underway, this will allow for identification for expenditures and cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support transit, transportation and priority infrastructure projects under Moving Ontario Forward.

The deferred tax benefit provides an up-front revenue gain to the Province, which also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales. This does not affect the total cash the Province

receives. By dedicating the fiscal benefit from the deferred tax benefit to the Trillium Trust, the government ensures that the Trust will receive the full benefit of the value created from broadening Hydro One's ownership.

Hydro One Brampton

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with Enersource, Horizon Utilities and PowerStream, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Mississauga, Hamilton, St. Catharines and Vaughan have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with Enersource, Horizon and PowerStream.

Commercial closing of the transaction is subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Enersource, Horizon Utilities and Powerstream? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

A: Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the

government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts

of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

CINs & Key Highlights

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PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Question: What is Program Review, Renewal and Transformation (PRRT) and how is it helping to manage government expenses and improve outcomes for Ontarians?

SUGGESTED RESPONSE

- **Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.**
- **The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.**
- **Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.**
- **To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.**
- **This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs.**
- **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.**
- **But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.**

CURRENT STATUS

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education. The following table (page 182 in the 2016 Budget) identifies major transformation and efficiency initiatives currently under review.

TABLE 2.1 Major Transformation and Efficiency Initiatives, 2016–17 to 2018–19
($ Millions)[1]

Initiatives		Expected Outcomes
Government Modernization		
Digital Action Plan		Transforming government service design and delivery, including creating Ontario's first-ever digital service to drive change across government.
Modernizing Information & Information Technology (IT)		High-performing IT solutions that provide greater value for money, lower delivery risks and enable effective transformation of public services.
Transfer Payment Administration Modernization		An easier process for recipient organizations to work with government so they can focus on their core business, and enabling government to maximize outcomes by allocating resources based on evidence.
ServiceOntario Modernization		Improved digital service design and delivery for a better and more convenient service experience.
Annual Fiscal Impact, Subtotal	15–130	
Sector Transformation		
Managing Health Care Spending and Growth		Improved patient experience and more equitable access to better integrated health services. Progress towards a redesigned public drug program that will be sustainable over the long term, simpler and easier to use, with a vision of increased fairness and equity among beneficiaries.
Benefits Transformation		Shifting from a program-by-program to a citizen-focused approach to benefits delivery will make it easier for people to access income-based benefits, while ensuring programs are administered efficiently.
Justice Sector Transformation		A more modern justice system that is client-centred, community-based and focused on prevention.
Annual Fiscal Impact, Subtotal	155–705	
Program Effectiveness and Sustainability		
More Effective Business Supports		Business support programs that more effectively support economic growth, innovation and expanding exports.
Simpler, Better-Targeted Postsecondary Student Financial Assistance[2]		Reduced complexity and more timely and better-targeted student financial aid to those who need it most.
Service Fees and Non-Tax Revenue[3]		A consistent, well-managed fee system that balances end-user needs with the objective of sustaining public services.
Tax Expenditures		Ending tax credits that have low take-up or do not effectively achieve desired outcomes and overlap with support provided through other provincial programs.
Annual Fiscal Impact, Subtotal	375–690	
Subtotal	**545–1,525**	
Annual Year-End Savings Target	800–1,000	As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project start-ups and implementation plans.
Total	**1,345–2,525**	

[1] Annual impact. Fiscal impact increases over time as initiatives mature. Savings estimates will be refined through implementation.
[2] Fiscal impact is generated through eliminating tax credits.
[3] Fiscal impact is generated through additional revenue.
Note: Numbers may not add due to rounding.

BUDGET 2016 CONTENT:

- "Strong Fiscal Management on the Path to Balance (Budget Papers, forward)
- We are on track to balance the budget in 2017–18. While we continue to invest in the key public services relied on by families, Ontario provides value for tax dollars spent by focusing on outcomes through Program Review, Renewal and

Transformation — and by retaining the lowest per capita program spending in Canada. This has helped us beat our fiscal targets and we are on track to do this for the seventh year in a row. For 2015–16, the deficit is forecast to be $5.7 billion, which is $2.8 billion lower than projected in the 2015 Budget. The government is projecting a deficit of $4.3 billion in 2016–17, and balanced budgets in 2017–18 and 2018–19. A key indication of fiscal sustainability is the Province's management of its debt. Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18."

PAGE 177 -- Program Review, Renewal and Transformation

- Launched in 2014, Program Review, Renewal and Transformation (PRRT) introduced a new approach to planning and budgeting. Led by the President of the Treasury Board/Deputy Premier and supported by a sub-committee of Treasury Board/Management Board of Cabinet, PRRT is both the government's ongoing fiscal planning and expenditure management approach and a continuous review of programs, including public services and internal administration. It is designed around four key principles:
    - Examining how every government dollar is spent;
    - Using evidence to inform better choices and improve outcomes;
    - Looking across government to find the best way to deliver services; and
    - Taking a multi-year approach to find opportunities to transform programs and achieve savings.
- Program Review, Renewal and Transformation is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.
- An important success factor of PRRT is increasing the government's capacity for evidence-based decision-making. At its core, this is about identifying the outcomes government wants to achieve, ensuring the best available evidence and analysis informs the government's decisions, and tracking the performance of public services to make sure Ontarians get the best results and value for money.
- The Province is building this capacity in a number of ways. The new Centre of Excellence for Evidence-Based Decision-Making, launched in the 2015 Budget, is setting standards for the use of evidence and tracking of performance across government, and equipping public service staff with the necessary tools and training. Through PRRT, key performance indicators are being identified for major programs, and performance measurement data will be monitored to track whether the government is achieving success on its priorities — and where more work is needed.

What Does Success Look Like?

- The government is already using key performance indicators to report on priorities, such as the Poverty Reduction Strategy, to track progress and demonstrate the impact of public investments. Education is key to breaking the cycle of poverty — high school graduation has increased from 68 per cent in 2004 to 84 per cent in 2014. Ongoing monitoring of key indicators is helping to better understand which investments are working and where additional efforts are needed to target the root causes of poverty.
- By identifying desired outcomes, and tracking progress towards these outcomes, the government and Ontarians can better assess whether a program has worked as it should, was effective, and investments were worthwhile and efficient.
- The government will leverage its relationships with experts across Ontario to build an external network that supports evidence-based policy making. This will include academic research and other types of organizations that can guide efforts to improve decision-making. It will also include the new academic Centre for Evidence in Health in All Policies and a new Institute for Fiscal Studies and Democracy Canada affiliated with the University of Ottawa.
- The Behavioural Insights Unit (BIU) is helping ministries apply insights from the behavioural sciences to design and implement policies and programs that are more effective, efficient and human-centric, in alignment with PRRT goals. Building on recent successes, in 2016 the BIU will focus on supporting initiatives that:
    - Optimize digital services;
    - Advance the goals of the Poverty Reduction Strategy;
    - Improve the health and well-being of Ontarians; and
    - Promote regulatory approaches that are less burdensome to businesses."

PAGE 179 -- Progress through Program Review, Renewal and Transformation

- Program Review, Renewal and Transformation is helping the government achieve better outcomes while also lowering costs. The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

PAGE 180 – Examples of Savings/Efficiencies (Initiatives Identified towards $500M Program Review Savings Target)

- Negotiating lower prices for goods and services, achieving savings of approximately $7 million from contracts related to government cellular phone plans and toll-free lines.
- Achieving approximately $56 million in savings, through the consolidation of data centres, early vendor payments and lower contract costs, including for software and IT consulting services, laboratory supplies and security services.

- Ensuring the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by continuing to make the program more efficient and effective.
- The changes enable the government to achieve savings of $106 million in 2015–16 and will enable over $200 million in savings annually when fully implemented, including optimizing the quantities of medication dispensed, adjusting some dispensing payments and practices, and maximizing the use of generic drugs.
- Making 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.
- Reducing employee benefits costs by approximately $207 million.
- Reducing the government's office footprint. As of January 2016, the government had reduced its office footprint by approximately 820,000 rentable square feet. That is over 60 per cent of the Province's target, with estimated savings of $24 million in 2015–16.
- Achieving approximately $30 million in savings by leveraging and reusing existing assets and other one-time savings opportunities.
- Effective contract management and operational efficiencies in business support programs, resulting in approximately $22 million in savings. Future savings may be realized through an ongoing review of business support programs.
- Modernizing the delivery of programs in the Ministry of Natural Resources and Forestry, and the Ministry of Northern Development and Mines, saving $19 million."

PAGE 181 -- Moving Forward with Program Review, Renewal and Transformation

- Program Review, Renewal and Transformation will remain focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.
- This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs.
- Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education."

PAGE 188 – More Effective Business Supports

- The government is undertaking an ongoing review of business support programs through PRRT, building on the recommendations of both the Commission on the Reform of Ontario's Public Services and the Ontario Auditor General, including an

enhanced focus on measuring program performance, increasing transparency about how funding decisions are made, and improving coordination across the government's business support programs. For example, moving forward, the Eastern Ontario Development Fund, the Southwestern Ontario Development Fund and the Rural Economic Development Program will be better integrated with the Jobs and Prosperity Fund to help improve the coordination of regional support programs.

- The review has assessed programs for effectiveness, efficiency, relevance, sustainability and alignment with the objectives of the Business Growth Initiative announced in the 2015 Ontario Economic Outlook and Fiscal Review, with the goal of promoting a highly productive, innovation-based and export-focused economy.
- Based on these assessments, opportunities are being acted on to reduce spending in programs that are lower-performing or less aligned with government priorities.
- Spending reductions will be reinvested in priority economic development opportunities, including the Business Growth Initiative outlined in Chapter I, Section A: Fostering a More Innovative and Dynamic Business Environment.
- The Province remains committed to delivering effective and targeted financial support through programs such as the Jobs and Prosperity Fund, marketing services, and collaboration with domestic and international partners. It also continues to foster the stability and development of Indigenous, rural and northern communities across the province."

PAGE 192 -- Improving Outcomes and Evidence-Based Decision-Making

- To improve programs, Ontario is moving towards a focus on evidence-based decision-making — gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.
- Examples include:
    - The government plans to continue to fund growth in community-based care of about five per cent per year to 2017–18, so patients receive care at or close to home and to avoid unnecessary and costlier stays in the hospital. In recent years, hospitals have introduced evidence-based funding that has supported shorter patient stays and more outpatient care, while maintaining excellent patient outcomes.
    - Over the next three years, the government plans to invest an additional $75 million in community-based, residential hospice and palliative care, for a total investment of about $155 million over three years. This will bring the government's commitment to residential hospices to almost $55 million annually at maturity. This investment, while supporting the government's commitment for greater choice and access with respect to palliative and

end-of-life care, funds a more cost-effective alternative than new hospital palliative-care beds."

- Government programs are being examined through four lenses:
    - The relevance of the program in realizing government priorities;
    - The program's effectiveness in achieving desired outcomes;
    - The efficiency in converting resources into results; and
    - The sustainability of the current program over the long term.
- Building on action already underway, including the work of the Commission on the Reform of Ontario's Public Services, the PRRT process has already identified a number of major initiatives to transform programs, modernize government and deliver savings towards the annual program review savings target – but it has only just begun.
- PRRT is a continuous planning approach and a collective multi-year initiative and will be considering complex, cross-government opportunities that aim to modernize public services, support fiscal objectives and improve outcomes for people.

BACKGROUND

Financial Accountability Office (FAO) Planned Report on Program Review, Renewal and Transformation (PRRT):

- In a November 2015 report on the province's fiscal outlook, the Financial Accountability Office (FAO) highlighted program spending targets as a particular area of concern, noting the government was sharply increasing its savings targets and planned to keep spending growth well below the pace of population growth and inflation.
    - The FAO report concluded: "There are significant risks to the achievement of these targets."
- In mid-November 2015, the Financial Accountability Officer, Stephen LeClair, advised the Deputy Ministers of Treasury Board Secretariat and Ministry of Finance that his office will be undertaking analysis focused on “Estimating the Fiscal Impact of the Program Review, Renewal and Transformation initiative”, and requested information from both ministries deemed necessary to perform his duties pursuant to subsection 12(1) of the Financial Accountability Act, 2013.
- Since December 2015, Treasury Board Secretariat and Ministry of Finance staff have continued to work with the FAO’s office to respond to their requested information to support their analysis and final report.
- In July 2016, TBS provided comments on the FAO draft final report. The final report has not yet been released.

Prepared By: Jane Bigley
Date Prepared: Sept 30, 2016
Date Updated:

PUBLIC SERVICE NON-PENSION RETIREMENT BENEFITS

Question: how do the upcoming changes to the post-retirement benefits affect ontario public service employees?

SUGGESTED RESPONSE:

- **Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.**
- **On February 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.**
- **PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of January 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.**
- **Also, eligible persons who have not commenced receiving a pension before January 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.**
- **Employees who commenced receiving a pension before January 1, 2017 will not be affected by these changes.**
- **Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.**
- **Some other public sector workers pay 100% of their benefits premiums.**
- **Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.**
- **Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms**.

CURRENT STATUS

Recent OPSEU Concerns with Changes to Post Retirement Benefits:

- On June 1, 2016 OPSEU submitted a formal letter responding to the government's announced changes to Post Retirement Benefits, claiming that the changes were unfair to OPSEU members and adversely impact the government's finances in unintended ways.

- The OPSEU letter recommends that further negotiations on the policy and alternative cost-saving measures be held and that the decision to implement a 50:50 premium cost-sharing be delayed until Jan. 1, 2018.
- On June 16, 2016, OPSEU submitted a second letter articulating interest and intent to jointly discuss the development of a viable alternative Post Retirement Benefits option.

BACKGROUND:

GENERAL INFORMATION ABOUT OPS PENSION PLANS:

- The OPS participates in two pension plans:
    - The Public Service Pension Plan, for which the government is the sole sponsor; and,
    - The OPSEU Pension Plan, which the government co-sponsors with the Ontario Public Service Employees Union.
- OPS pension plan members pay 50% of the contributions required by their pension plans, on average between 7% and 10% of their annual salaries.
- Both plans provide defined benefits, so retirees are provided with a monthly pension based on a fixed formula, in contrast to a defined contribution type of pension, which is more like an RRSP.
- Pensions are part of the total compensation for public servants.

Prepared By: Jane Bigley
Date Prepared: September 9, 2016
Date Updated:

TRUST FUNDS UNDER ADMINISTRATION (WSIB, PBGF, MVACF)

Is there any significant change to the accounting for Trust Funds under Administration for 2015-16 Public Accounts?

SUGGESTED RESPONSE

- **There were no significant changes to the accounting for Trust Funds under Administration in the 2014-15 Public Accounts.**

- **The Workplace Safety and Insurance Board (WSIB), the Pension Benefit Guarantee Fund (PBGF) and the Motor Vehicle Accident Claims Funds (MVACF) are all Trusts under Administration and are not consolidated on the Province's books but are disclosed in the notes to the consolidated financial statements.**

- **The Province is not liable for the unfunded liabilities for the WSIB, PBGF or the MVACF, both of which are funded by external third parties.**

CURRENT STATUS

WSIB

- The AG supports the continued classification of the WSIB as a Trust given the progress achieved to date in working towards financial sustainability targets.

- The AG has committed to continue to monitor the progress on meeting the required funding sufficiency ratios and will re-evaluate her position annually based on the progress made towards meeting these commitments.

- In the event that the WSIB's plan does not continue to trend towards eliminating the overall unfunded liability, the AG will once again question its classification as a "Trust" and suggest that the WSIB should be consolidated onto the Province's books.

Pension Benefits Guarantee Fund (PBGF)

- Currently the PBGF is not included in the Province's consolidated financial statements as it is intended that any unfunded liabilities will be discharged by external parties.
- In the past, the Province has provided grants and loans to the PBGF.
- The Auditor General has stated that if the Province were to provide additional funding to the PBGF in the future, that she would request that it be consolidated onto the Province's books.

Motor Vehicle Accident Claims Funds (MVACF)

- Currently the MVACF is not included in the Province's consolidated financial statements as it is intended that any unfunded liabilities will be discharged by external parties.
- The MVACF is the latest in trusts under administration to have been identified by the Auditor as a potential candidate for consolidation if there is a constructive or equitable obligation on behalf of the province to cover debts of the organization.

BACKGROUND

WSIB

- This has been a recurring issue in the AG's Annual Report since 2009

- The WSIB's financial results have never been included in the Province's consolidated financial statements on the basis that it is classified as a Trust
    - Meaning that the province has no access to the assets of the Trust and has no responsibility to pay for any liabilities of the Trust.

- The inclusion of this section in the AG's Annual Report in 2009 was prompted by the significant unfunded liability that the WSIB was carrying (i.e. the amount by which its obligations exceeded its assets).

- Based on this, the AG was suggesting that the WSIB is not a true Trust (as defined above) and therefore its financial results should be consolidated with the province's.
    - The main argument for consolidation was that the province would be left to fund any shortfalls in the event that WSIB could not meet its obligations.

- In response to the AG's concerns, the WSIB undertook an independent funding review to ensure its long-term financial viability and retain its classification as a "Trust"

- Since then, a long-term financial sustainability plan was implemented that would see the WSIB become fully funded by December 31, 2027 (i.e. the unfunded liability will no longer exist by this date).

- The measures taken to date have had a positive impact on the WSIB's unfunded liability and the Trust is well on its way to achieving its 2027 target.

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year.

Pension Benefits Guarantee Fund (PBGF)

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year

Motor Vehicle Accident Claims Funds (MVACF)

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year

Prepared By: Ian Provis
Date Prepared: October 3, 2016
Date Updated:

FINANCIAL INSTRUMENTS STANDARD

Question: Will the Province be ready to implement PSAB's Financial Instruments standard for the 2016-17 Public Accounts, as per the Auditor General's recommendations? What is the impact of this change?

SUGGESTED RESPONSE

- **The Province continues to work with the OFA and PSAB to address issues with the Financial Instruments accounting standard. PSAB has delayed the implementation date of the standard for senior governments to the fiscal year 2019-20.**

CURRENT STATUS

PSAB approved an amendment to the transitional provisions in Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments, to extend the effective date to April 1, 2019 from April 1, 2016.

Since the issuance of Section PS 3450, Financial Instruments, there have been reports of transition and other issues that have been brought to the Public Sector Accounting Board's (PSAB) attention.

PSAB now has an active project to consider these issues as they arise. PSAB staff continues to meet with stakeholders and are expected to make report back to their board in September 2016. The summary/results of the PSAB meeting are expected by mid-October 2016.

BACKGROUND

The province uses financial instruments and derivatives (foreign-exchange forward contracts, swaps, futures and options) to manage or hedge against risk related to debt financing. Currently, PSAB guidance on accounting for derivatives is limited to their application in hedging foreign-currency items.

The new proposed standard was scheduled to come into effect April 1, 2019.

In the 2014 AG Report, Auditor General of Ontario has outlined some of the significant issues that the proposed Financial Instruments standard may affect the financial results of senior Canadian governments, including Ontario.

Despite concerns raised, PSAB reaffirmed in February 2014 its commitment to the new proposed standard.

PSAB met with the Ontario Financing Authority in the summer of 2014 to highlight again the concerns the province had with the new standard.

In January 2015, OPCD wrote a letter to PSAB recommending a Task Force be created to revisit this issue. Other jurisdictions similarly at this time also wrote letters to PSAB again expressing their concern with the new proposed standard.

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016
Date Updated:

October 3, 2016

LIABILITIES FOR CONTAMINATED SITES

Issue: In addition to commenting on financial reporting on contaminated sites in Chapter 2 of her Annual Report, the Auditor General is also released a Value for Money Audit Report on the government's management of contaminated sites.

KEY MESSAGES:

- The Auditor General noted that Ontario successfully implemented a new accounting standard on contaminated sites in the province's Consolidated Financial Statements for the 2014/15 Public Accounts.
- 2014-15 was the first year of reporting under the new accounting standard which expanded the scope of liabilities reported by public sector entities and governments.
- Remediation liabilities under the new accounting standard were estimated at $1.79 billion as of March 31, 2015, an increase of $1.68 billion from the $107 million in liabilities previously reported by the government.
- Incremental liabilities reported on the 2014-15 financial statements did not impact the annual deficit but were added to overall net debt. From 2015-16 onwards, any net new liabilities would impact the annual deficit year in which they are reported.

IF ASKED ABOUT HEALTH AND SAFETY:

- Ontario is committed to protecting the environment and the well-being of our residents.
- We are aware of the historic environmental issues at former mining, industrial and other sites across the province and we are responding to the health and safety risks associated with these sites.
- Over the last five years, the Ontario government has spent approximately $190 million to help clean up contaminated sites across the province.

IF ASKED ABOUT RECOMMENDATIONS:

- The Auditor General identified a number of areas for improvement and many of those improvements were already underway in various initiatives.
- With regards to her audit of the government's financial statements, the Auditor General was satisfied with the completeness of the government's identification and inventory of high-risk sites across Ontario as the basis for her liability estimate.
- To respond to the Auditor's recommendations, the government committed to setting up a central oversight function which will oversee management of these sites using a risk-based approach.
- In addition, the government is working on finalizing a formal site assessment framework to help prioritize future work on contaminated sites.

EXAMPLES OF CURRENT CLEANUP ACTIVITIES

- Over the last five years, the Ontario government has spent approximately $190 million to help with contaminated sites across the province.
- Prior to 2014-15, the Ministry of the Environment and Climate Change spent $19.7 million on capital and operating costs at the Deloro site in Hastings County and another $3 million at other sites.
- The Ministry of Northern Development and Mines budgeted $4 million to cover ongoing operations and maintenance in fiscal 2014-15, and 75% of that budget was spent on rehabilitation projects at various sites.
- The Ministry of Natural Resources and Forestry last fiscal 2014-15 spent $23.1 million on remediation and rehabilitation of three separate contaminated sites.
- The Ministry of Municipal Affairs and Housing reports that to date Ontario has contributed $12.3 million to support the remediation of Regent Park.

WHAT IS BEING DONE TO PREVENT FUTURE LIABILITY:

- The Ministry of Environment and Climate Change has developed and implemented a Financial Assurance Program in order to minimize liability related to abandoned waste sites and other operations that may require remediation.
- The financial assurance program requires the regulated community to post money up-front for any potential future remediation activities that may be necessary.
- Since the introduction of the program in 1986, the ministry has collected $430 million in financial assurance. To date, about $12 million has been applied towards site specific remediation.
- Under the *Mining Act,* the Ministry of Northern Development and Mines receives Closure Plans and appropriate amounts of Financial Assurance for all producing mines and advanced exploration projects in Ontario.
- Funds can only be used for the rehabilitation of the specific mine site that they are submitted for, so the funds cannot be pooled for the rehabilitation of any mine in the Province.
- MNDM currently holds $1.6 billion in financial assurance for the rehabilitation of specific mine sites and advanced exploration projects. These funds include more than $1 billion in “hard” forms of security, such as cash, letters of credit, and surety bonds.

IF QUESTIONED IN-DEPTH ABOUT SPECIFIC SITES:

- Treasury Board Secretariat is not directly involved in the oversight or operation of any of these sites.
- Please direct in-depth questions on specific sites to the appropriate ministry.

Background:

- The AG noted that the government has long recognized that it lacks a co-ordinated approach or method for assessing contamination risks across ministries and agencies. It has also long recognized the need for a system for centrally prioritizing the actions necessary to address contaminated sites as a whole.

- The government needs this co-ordinated approach and system in order to:
    - Consistently assess the risks associated with its contaminated sites;
    - Consistently prioritize sites to identify those most in need of remediation;
    - Consistently allocate appropriate funding to sites that pose the greatest risk; and,
    - Develop a long-term funding model to ensure that remediation resources are allocated, on an ongoing basis, to where they provide the most benefit.

- Recognizing that its approach to managing contaminated sites was fragmented, the government in its 2011 Budget announced its intention to co-ordinate its environmental clean-up activities across the province, the AG wrote in her report.
- Accordingly, Treasury Board Secretariat directed the relevant ministries to together develop a comprehensive environmental clean-up strategy.
- The strategy was to included three initiatives consolidation of funding, a single inventory of contaminated sites, and the development of a risk-based approach to prioritizing governance structure for contaminated sites managed by a new Contaminated Sites Project Office.

- The AG's VFM audit report includes recommendations dealing with:
    - Need for Centralized Oversight of Contaminated Sites;
    - Centralized inventory for contaminated sites needed;
    - Contaminated sites need to be prioritized for remediation;
    - Lack of funding and resource allocation strategy for remediation;
    - Improved guidance needed to ensure consistent liability estimates;
    - Inadequate documentation supporting the contaminated sites liability; and,
    - Lack of policies or processes for updating liability estimates

- During the Public Accounts audit, the AG found several instances of ministries making errors in initially estimating their liability for contaminated sites. These errors arose from deficiencies in the processes put in place to address the requirements of the new accounting standard.

- All of these errors were corrected by ministries before the province's March 31, 2015 consolidated financial statements (the Public Accounts) were finalized and would not have been material to the province's financial results.

- A new standard for contaminated sites accounting was issued by the Public Sector Accounting Board – Liability for Contaminated Sites (PS 3260). The standard is effective for fiscal 2014-15 (April 1, 2014 onward). Accordingly, Ontario first recognized its liabilities for sites in accordance with PS 3260 in the March 31, 2015 Public Accounts.

- The province had already initiated actions to enhance effective management over contaminated sites prior to the AG's audit, and well in advance of the effective date of the new accounting standard. For example, Budget 2011 announced the intent to coordinate environmental cleanup activities. TBS directed ministries to develop a comprehensive cleanup strategy that would include consolidation of funding, a single inventory of contaminated sites and to develop a risk-based approach to prioritize remediation projects. TBS also recommended the eventual creation of a centralized government structure for contaminated sites, managed by a new Contaminated Sites Project Office.

- The Ministry of Environment and Climate Change was responsible for reporting to TBS. Specifically, three working groups were supposed to deliver a final report in

July 2013, containing detailed recommendations for establishing and operating the new project office. There was some interim reporting to TBS, but progress was slow and a final report to TB/MBC is still outstanding.

- The implementation of PS 3260 and the need to estimate additional liabilities under the new standard increased the profile for contaminated sites. The status of implementing a central oversight function and related tools to support decisions, monitoring and reporting directly impacted the ability to derive estimates of reportable liabilities. With regards to the AG's suggestion that the government lacks a funding and resource allocation strategy, it is important to note that the incremental liabilities have all been appropriated. Only incremental liabilities or changes to the existing estimates will require additional appropriations in the future.
- The enterprise-wide inventory of contaminated sites, including all new liabilities reported under the new standard, and prioritization thereof, will enhance risk prioritization and resource allocation decisions.
- Two categories of contaminated sites account for most of the $1.4 billion of total liability – former mineral extraction sites and office/commercial/industrial sites.

AUDITOR GENERAL -- VFM AUDIT -- SUMMARY

- The AG audit found weaknesses in the government's processes for identifying, measuring and reporting on its contaminated sites liability. These weaknesses heightened the risk that the government's liability could be misstated; however, the province made all audit adjustments which were not material to our financial statements.
- The AG found that there was no centralized ministry oversight over the ministries' processes for managing their contaminated sites and estimating their contaminated site liabilities. The AG believes this lack of oversight was ultimately responsible for most of the errors and issues. The Province's response to the finding reflects the status of government initiatives already underway at the date of the audit. Further details of specific recommendations are provided below.
- The AG report also expressed concerns regarding the accuracy of the government's estimate of its liability for contaminated sites. The AG accordingly would like to see a continuing focus on improving the precisions of the estimate in future years as more assessment work is done and updated when other or new information becomes available.

AUDITOR GENERAL – VFM AUDIT – RECOMMENDATIONS & DETAILED MANAGEMENT RESPONSES

Recommendation 1:

To ensure that contaminated sites for which the government is responsible for are identified and properly assessed, and that provincial liabilities are identified and valued on a timely basis:

- **The government should designate a dedicated ministry division or branch with overall responsibility for managing contaminated sites; and,**
- **The Inter-Ministerial Contaminated Sites ADM Steering Committee should perform an oversight role until this function or co-ordinated team is established.**

The AG commented that without proper oversight, governments cannot ensure that their initiatives are implemented as expected or on a timely basis. Poor oversight of the processes used in the contaminated site initiative was ultimately responsible for most of the issues and errors found in the audit.

AG wrote that:

- An Assistant Deputy Minister's Steering Committee planned to meet monthly under its Terms of Reference, but met only twice since August 2012.
- Working groups created to deliver under TBS three contaminated sites initiatives had not fully completed their work.
- No new or existing provincial lead body had been assigned overall responsibility for overseeing implementation of the initiatives.
- An overall conclusion that the work requested by Treasury Board in the 2011-12 fiscal year had not been satisfactorily completed.

Ministries did not have sufficient direction to ensure that they correctly assessed their contaminated sites and estimated the liabilities associated with them.

Response:

The Province recognizes the benefit of a central oversight function to support effective risk mitigation and management of contaminated sites. We concur with the Auditor's recommendations and will establish a central oversight function to ensure a coordinated and consistent approach to the identification, tracking, risk assessment and prioritization of contaminated sites across government. Ministries will continue to exercise their accountability for managing risks for individual sites.

The Province will implement the appropriate governance structure to address both immediate and long-term needs for central oversight of contaminated sites.

Recommendation 2:

To ensure that the government has a complete picture of its existing and potential contaminated sites liability, the stakeholder ministries should ensure that:

- **A centralized database inventory of all contaminated sites is developed and implemented; and,**
- **The public has access to information on contaminated sites for which the government has recorded a liability.**

The AG noted that government does not have a centralized inventory of its contaminated sites, and that each ministry tracks its own sites and maintains its own records of actions, such as environmental site assessments or remediation efforts.

The report noted that without centralized information, it would be impossible to track, prioritize and fund contaminated sites using a government-wide perspective.

The Ministry of the Environment and Climate Change planned to have a centralized database of contaminated sites and populate the data base with existing and additional detailed information by the end of the 2014/15 fiscal year.

Response:

As part of the Province's initiative to enhance governance over contaminated sites, the Office of the Provincial Controller, in collaboration with stakeholder ministries, has completed a review of existing technologies to track contaminated sites across the province with the intent to establish and implement an enterprise-wide central inventory of all contaminated sites in 2016.

The Province is currently disclosing information on contaminated sites in accordance with Public Sector Accounting Standards. Analysis will be undertaken to support future government decisions on the extent and nature of any additional public access to information on contaminated sites.

Recommendation 3:

To ensure that the cleanup of high-priority sites is consistently funded before that of low-priority sites, the stakeholder ministries should finalize the risk prioritization model and ensure that ministries use this model to assess all remediation funding proposals.

At the time of the AG's audit, the Ministry of the Environment and Climate Change had developed an OPS-wide risk prioritization model for contaminated sites, but the model had not been approved or implemented. The model was awaiting approval from the ADM Steering Committee and is planned for rollout to ministries in the fall of 2015.

Response:

The focus of the Province in 2014/15 was to effectively implement PS 3260, including a reasonable estimate of the contaminated site liability as at March 31, 2015 for Public Accounts purposes. At the time of the audit, the province's efforts to implement a consolidated risk-based prioritization tool were also well underway. Ministries worked with a consultant to develop a risk-based prioritization tool that will allow for both the prioritization of sites for remediation, as well as the prioritization of sites that require further study, on a government-wide basis. Approval of the tool and adoption by the ministries is expected in the current fiscal period. Effective implementation of the tool in conjunction with the oversight function will help to mitigate the risk of the government proceeding with remediation on low priority sites before higher priority sites for the Province.

Recommendation 4:

To ensure that ministries have sufficient resources available to remediate their high-risk sites in a prudent manner, the stakeholder ministries should:

- **Co-ordinate the development of a long-term plan for remediating the province's contaminated sites. The plan should incorporate both an annual and a long-term funding strategy; and,**
- **Periodically report to Treasury Board, on a consolidated basis, their progress in remediating sites under their annual and long-term plans.**

The AG pointed out that the government currently has no overall funding strategy or resources allocated specifically for the management of its contaminated sites.

Without dedicated funding and sufficient dedicated resources, the report outlined some potential problematic concerns: high-risk contaminated sites could be improperly classified as low risk, or inappropriate remediation strategies could be selected.

Remediation strategies selected because of resource constraints may keep current costs low, but could prove much more costly later.

Failure to address this issue properly risks shifting the costs associated with contaminated site remediation to the next generation, negatively impacting the province's ability to preserve a healthy and sustainable environment for future years.

Ministries did not receive any specific or additional funding/ resources to assist in the implementation of PS 3260, and had to use existing program resources for the initiative.

Response:

The enterprise-wide inventory of contaminated sites, including all new liabilities reported under the new standard, and prioritization thereof, will enhance risk prioritization and resource allocation decisions to inform the funding strategy. Ministries will be asked to provide rolling updates to their long-term remediation plans, including their cash flow forecasts related to remediation work planned each year, and to report on progress.

Periodic reporting to Treasury Board/Management Board of Cabinet would improve transparency on the progress and outcomes ministries have achieved in remediating contaminated sites. This approach aligns with the government's commitment to outcome-related measures which assess the effectiveness and efficiency of government

programs and activities. Reporting considerations will be addressed as part of the design and implementation of a central oversight function.

Recommendation 5

To ensure that the government's ongoing contaminated sites liability estimate is reasonably and consistently calculated, the Office of the Provincial Controller Division should provide formal guidance to ministries on how to account for and measure these liabilities.

The government needs to improve the guidance it provides ministries to help them estimate their contaminated sites liability

Without clear direction, ministries have been developing and applying different approaches to assessing and evaluating their particular sites.

The AG identified errors totaling $95 million in the government's initial liability estimates for contaminated sites.

Response:

Important insights were gained through Ontario's experience implementing PSAB's new accounting standard. Significant challenges encountered in implementing the standard included interpretative issues related to the standard, completeness of contaminated site inventories and estimates of remediation costs. Through effective collaboration and communication, a reasonable estimate of liabilities for contaminated sites was achieved.

Building on this challenging but successful experience, the Office of the Provincial Controller Division will undertake to work with ministries in 2015/16 as well as with both internal audit and the Office of the Auditor General to enhance accounting guidance to ministries for reporting on contaminated sites under the new standard.

Recommendation 6

To ensure that future decisions and cost estimates for remediating contaminated sites are based on the best information available, and to prevent errors and inconsistencies, the stakeholder ministries should:

- **Improve the supporting documentation they maintain regarding contaminated site liability estimates. Documentation should include:**
  - **Explanations of how contaminated site was identified, including:**
    - **What risk-based approaches were used to identify high-risk sites?**
    - **What remediation strategies were selected, what assumptions were made in the estimation of the liability?**
- **Periodically review sites that have been classified as low risk to ensure that this classification remains valid.**

The AG found that the ministries' documentation to support their contaminated sites liability estimates was often of poor quality.

She stated that inadequate documentation raises the risk of errors and may lead to permanent loss of critical information.

Response:

Lessons learned through implementation of the new accounting standard will benefit ministries through enhanced documentation on risk assessments and cost estimates. Ministries will continue to refine and improve upon the quality of their documentation in future years. The centralized oversight body, once established will provide ministries with further direction in this regard consistent with Auditor General's recommendations.

Ministries will regularly review information related to contaminated sites, which will serve as input to both risk management over contaminated sites and in conjunction with the Public Accounts process.

Recommendation 7

To ensure that the contaminated sites liability estimates reflect newly available relevant information:

- **The stakeholder ministries should implement a process for annually reviewing all of their liability estimates. This process should include a review of remediation costs incurred to date and assessment of those costs in relation to the recorded liability to determine if the liability estimate needs to be updated; and,**
- **The Office of the Provincial Controller Decision should provide the ministries with guidance for carrying out this annual exercise, and carefully monitor ministry liability submissions to ensure that adjustments are made when required before their inclusion in the province's consolidated financial statements.**

The province currently has no formal policies or guidelines, other than PS 3260, requiring ministries to monitor their sites and incorporate newly available information into their site assessments and liability valuations. The AG opined that without such monitoring in place, the valuations reflected in the government's sites liability could fall out of date and no longer accurately reflects the best estimate of its obligations to a particular site.

The government should review its sites liability annually.

Response:

The Province's existing initiatives to enhance prioritization, risk management and reporting for contaminated sites will include a requirement for ministries to regularly update site information, both to identify additional risks and changes impacting management decisions related to contaminated sites and to ensure complete and reasonable liability estimates are reported in the Province's Public Accounts.

As part of these efforts, consideration will be given by the centralized oversight body and the ministries to the appropriate triggers and/or timelines to initiate more in-depth site assessments or liability estimates such as changes in technology, site conditions, or changes in environmental standards.

AUDITOR GENERAL - VFM AUDIT – FINANCIAL SECURITY

The province's liability for contaminated sites contains a number of former mines and landfill sites because operators failed to meet their obligations and have insufficient financial resources to remediate the contamination on their sites. In these cases, the site has reverted to the care and control of the province. (It should be noted that landfill sites are treated separately from PS 3260 in accounting standards).

Mining companies and landfill site operators are legally responsible for remediating their sites. Mine operators are required under the Mining Act to return their sites to the standard defined in their approved closure plan, regardless of any financial security provided to MNDM.

The Ministry of Northern Development and Mines and the Ministry of Environment and Climate Change each maintain a fund requiring that mining companies and landfill site operators provide the province with financial security, such as a deposit of funds or a letter of credit. This financial security provides assurance to the government that they can cover necessary remediation costs. MNDM and MOECC held $22 million and $31 million in cash financial security and $1,608 million and $408 million in no-cash security as of March 31, 2015.

The AG's Mines and Minerals audit noted a key weakness in the mines fund, namely inadequate financial security being obtained for future mine remediation costs.

The AG encourages the government to implement recommendations in the Mines and Minerals audit report to minimize its risk of being responsible for future reclamation costs of mining operations.

Current status

The financial assurance provided to MNDM is not part of the contaminated sites liability, but in a special purpose account.

It is obtained at a prescribed point in the mining process in accordance with an approved Closure Plan. It is maintained in prescribed forms and reviewed every 5 years to ensure the closure plan is still relevant and appropriately costed

In the event the Ministry's assessment of required assurance exceeds that provided for from the mining company, the Ministry may issue orders to remedy the situation

Ideally the fund assurance is returned to the company once Closure of the site has been completed and verified by the ministry through a site inspection.

In the event that a company fails to meet Closure requirements and/or faces financial distress, the ministry may undertake Closure steps on the companies' behalf and will recover costs from the FA held for the site – if at that point the assurance proves to be inadequate, the ministry will need to find other means to cover the shortfall.

EXAMPLES OF EXISTING REMEDIATION EFFORTS

Ministry of Environment and Climate Change

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- The ministry is committed to protecting the environment and Ontario residents from contamination, starting first with addressing the environmental risks posed by contaminated sites in a manner that reduces the fiscal risk to the province.
- For example, the ministry developed and implemented the Financial Assurance Program in order to minimize the ministry's liability related to abandoned waste sites and other operations that may require remediation.
- The financial assurance program requires the regulated community to post money up-front for any potential future remediation activities that may be necessary at a given site.
- Since the introduction of the program in 1986, the ministry has collected $430 million in financial assurance.
- To date, about $12 million has been applied towards site specific remediation.
- The ministry currently monitors financial assurance requirements for over 1,200 approved activities.
- Although neither a fine nor a penalty, holding financial assurance helps:
  - Encourage compliance with environmental requirements
  - Ensure that funds are available from the regulated community for future clean-up, remediation or site management should it become necessary.
- In addition, the ministry is strengthening the use of polluter pay principle approach to a number of programs including, environmental penalties for spills, extended producer responsibility programs for waste diversion and fees for hazardous waste.
- Ministry spending on contaminated sites fluctuate annually based on projects for which TBS approves funding. For example, in 2014-15 the ministry spent $19.6925M on Deloro (capital and operating) and about $3M on other sites.

Ministry of Northern Development and Mines

- Under Part VII of the Mining Act, the Ministry of Northern Development and Mines receives closure plans and appropriate amounts of financial assurance for all producing mines and advanced exploration projects in Ontario.
- However the funds that are collected can only be used for the rehabilitation of the specific mine site that they are submitted for, so the funds cannot be pooled for the rehabilitation of any mine in the Province.

- Abandoned mines, including both the Kam Kotia and the Crosswise Tailings sites, ceased operations prior to the requirement for CPs and FA.
- *MNDM currently holds $1.6 billion of financial assurance for the rehabilitation of specific mine sites and advanced exploration projects. These funds include more than $1 billion in "hard" forms of security, such as cash, letters of credit, and surety bonds.*
- *To date, MNDM has begun the rehabilitation of two sites (Timminco and Lockerby) using financial assurance that was supplied by the owner with their closoure plans.*
- *The AMRP receives an annual budget allocation of $4 milion. From that allocation, between $750,000 and $1 million is spent annually on on-going maintenance issues, such as the operation and maintenance of Kam Kotia. The remainder of the funds are expended on abandoned mine rehabilitation projects on sites throughout Ontario that may or may not have contamination issues.*
- *For example, during FY 2014/15, more than 75 per cent of the AMRP's annual allocation was spent on rehabilitation projects on contaminated sites, with the balance being spent on operation and maintenance issues, as well as the rehabilitation of abandoned mine sites that do not have contamination issues.*

Ministry of Natural Resources and Forestry

Steep Rock Mine

- In 2014-15, MNRF will spend approximately $2 million on the Steep Rock mine site, which includes:
  - the development of a conceptual rehabilitation plan;
  - addressing public safety and liability risks by closing open mine shafts and tunnels; and,
  - conducting various environmental assessments and site studies to support the planning process.

Hawkesbury Lagoon

- Over the period April 1, 2009 to March 31, 2015 approximately $11.6 million has been spent on the remediation project.
- In fiscal years 2014/15 MNRF will spend $6.280M
- In fiscal years 2015/16 and 2016/17 $18.3 million has been budgeted.
- The full projected remediation cost, since 2009 to the end of the current contracts, is $30 million.

Mid-Canada Radar Line Sites

- A Contribution Agreement was signed in May, 2009, between MNR and DND to provide for a Federal Government contribution of $30 million towards the clean-up project. The 2009/10 provincial budget identified $85 million as the total Ontario contribution to the MCLRS Project with a maximum $30 million recovery from Canada.
- In fiscal years 2014/15 MNRF will spend $14.835 million.

Ministry of Municipal Affairs and Housing

- Under the *Environmental Protection Act* the Ontario Mortgage and Housing Corporation, as a former owner of Regent Park, has a potential liability for contamination found on former public housing properties.
- As opposed to other provincial ministries, the Ministry of Municipal Affairs and Housing no longer owns or manages properties or other real estate assets.
- The ministry does not require a rehabilitation funding program, and any environmental remediation costs are reported and requested as part of the provincial Program Review, Renewal and Transformation (PRRT) process.
- To date, the province has contributed $12.3 million to support the remediation of Regent Park.

- A further $59.6 million is estimated to complete the remediation on the lands. This liability is recorded by the Ministry of Finance and has been earmarked for the project.

MINISTRY BY MINISTRY SPEND TABLES

Ministry of Environment and Climate Change.

Fiscal Year	Actuals, rounded
2010-11	8,586,000
2011-12	18,417,000
2012-13	17,023,000
2013-14	8,292,000
2014-15	22,068,000
Total	**74,385,000**

Ministry of Municipal Affairs and Housing

Fiscal year	Actual spend
2010-11	1,106,458
2011-12	3,359,640
2012-13	2,919,565
2013-14	1,794,181
2014-15	688,843
Total	**9,866,687**

Ministry of Natural Resources and Forestry

Fiscal year	Actual rounded
2010-11	11,000,000
2011-12	18,000,000
2012-13	16,000,000
2013-14	16,000,000
2014-15	24,000,000
Total	**85,000,000**

Ministry of Northern Development and Mines

Fiscal year	Actual rounded
2010-11	1,610,000
2011-12	7,560,000
2012-13	2,020,000
2013-14	6,300,000
2014-15	3,290,000
Total	**20,780,000**

Ministry of Tourism, Culture and Sport

Fiscal	Actual rounded
2012-13	56,000
Total	**56,000**

NOTE: Ontario Place - As part of the ongoing revitalization of Ontario Place and specifically related to the Park and Trail project a contaminated liability has been addressed this year. A risk assessment approach was undertaken which deemed all of the soil as non-hazardous. It was proven that the soil could remain on the site subject to certain risk management measures being implemented. As such, a 1.5 metre layer of clean soil was distributed across the park and trail. The associated cost for this was $2.2M in 2015-16.

Ministry of Economic Development Employment and Infrastructure

Since 2006, as part of the revitalization of the West Don Lands, the Province has committed to $304 Million in enabling works, which includes construction of a Flood Protection Landform and a new storm water management system that will stimulate

further private sector investment in the redevelopment of land uses within the former 210 hectare Don River floodplain west of the Don River.

Originated by: Alan Cairns 416-327-2805

Approved By	**Name**	**Date**
OPCD	John Psinas	November 18, 2015
OPCD	Sanjeev Batra	November 18, 2015
Communications	Alan Cairns	November 25, 2015

CHANGES TO THE STANDARD AUDIT REPORT

Question: How will recent changes to auditing standards impact the AG's reporting on future Public Accounts audits?

SUGGESTED RESPONSE

- **The recent changes to Canadian Auditing Standards do not directly affect the Province in its preparation of the Public Accounts. The changes impact the structure and content of the Auditor General's future audit opinion letter.**

CURRENT STATUS

- A key change to the opinion letter that is being proposed relates to a new paragraph or section that enables the auditor to communicate key audit matters that, in the their professional judgement, were of most significance to the audit of the financial statements, such as:
    - Areas identified as significant risks or involved significant management or auditor judgement;
    - Areas in which the auditor encountered significant difficulty; and
    - Significant deficiency in internal controls
- The Auditor General currently communicates these matters through Chapter 2 of its Annual Report.
- The new opinion letter is expected to be used for the audit of the province's March 31, 2017 consolidated financial statements.

BACKGROUND

- The Auditor General's Annual Report (Chapter 2) report is typically published in December, months after the completion of the Public Accounts audit. statements.

- The additional Matter of Emphasis paragraph included in the expanded auditor's report is something that the Public will see at the same time as the opinion paragraph which reflects the AG's opinion on whether the financial results are fairly stated.

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016

Information Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting Branch

Enhancements to the 2015-16 Public Accounts FSD&A

Purpose:
The purpose of this information note is to provide background information on the enhancements made to the 2015-16 Public Accounts Financial Statement Discussion and Analysis (FSD&A).

Background:
Every year, the Auditor General reports on her examination of government resources and administration in an Annual Report tabled by the Speaker of the Legislative Assembly in the Legislature. Tabling is usually at the end of the year, at which time the Annual Report becomes public.

In 2015, the Chapter 2 had three main areas of focus: Ontario's debt burden; Ontario's annual report – specifically, the FSD&A – and; issues related to specific accounting practices.

Summary of the AG recommendations:
The following table outlines the recommendations made by the AG in Chapter 2 regarding Ontario's FSD&A.

Issue	Recommendation	TBS response
Ontario's Annual Report	We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.	We will consider how the suggestions outlined in PSAB's Statements of Recommended Practice (SORP) might help to enhance the quality of the province's future reporting.

Summary of the FSD&A enhancements:

The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government

reviewed reporting practices of other senior Canadian governments and also referenced recommended practices issued by the Public Sector Accounting Board.

A number of planned enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.
- Expanded tables for financial highlights section
- Expanded tables for analysis of results
- Multi-year trend analysis of revenues and expenses
- Expanded discussion of revenue sources (including multi-year trend)
- Discussion of spending by type of expense (new pie chart)
- Analysis of financial assets and tangible capital assets (including multi-year trends)
- Analysis of liabilities and debt (including multi-year trends)
- Key financial ratios and multi-year trends covering Sustainability, Flexibility, and Vulnerability
- Multi-year trend and discussion of fiscal management (budget-to-actual deficit figures)

Prepared by:	Rob Scheifley	416-325-8082
Approved by:	Ian Provis	416-327-2722
Date:	September 26, 2016	

Confidential **October 3, 2016**

2015-16 ANNUAL REPORT

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

KEY MESSAGES:

- The Annual Report is a financial update, and reports on the Province's unaudited results against the 2015 Budget plan.

- The Annual Report contains similar content to the Public Accounts, except that it does not include the Auditor General's opinion which is needed to table the Public Accounts in accordance with the Financial Administration Act.

- The results for the Province were issued in unaudited form on October 3rd, because the AG has said that she could not provide an audit opinion on the Province's final financial statements that were submitted to her on September 29.

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

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

- The legislated accounting change impacts the 2015-16 results only and results in the same accounting treatment for pension assets as proposed by the Auditor General.

- The comparative results for 2014–15 have not been restated in the Annual Report which preserves the long-term comparability of year-over-year financial results and balances.

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

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

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

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

- This year, in addition to providing a comparison of actual to planned results, the Annual Report has been enhanced in several areas to further support transparency and accountability for readers.

BACKGROUND:

Revenue Highlights

Against 2015 Budget:

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

Against the Interim Estimates in the 2016 Budget:

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

Expense Highlights

Against the 2015 Budget plan:

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

Against the interim Estimates in the 2016 Budget:

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

Net Debt

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

Trillium Trust

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

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

Transparency and Accountability

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

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

Timelines of Tabling

- In accordance with the FAA, the Public Accounts, including the Auditor General's opinion, is required to be tabled within 180 days after the fiscal year end which fell on September 27, 2016.
- Once the Province receives the Auditor General's opinion for 2015-16 consolidated financial statements, it will complete the tabling of the Public Accounts.

RECENT MEDIA COVERAGE:

- October 4, 2016- There is extensive coverage (Toronto Sun, Ottawa Sun, Toronto Star, Globe and Mail, QP Briefing, Canadian Press, Waterloo Record and the London Free Press) of the release of the consolidated financial statements and **Minister Sandals** is mentioned throughout the coverage. The tone is generally negative and the Toronto Star, Globe and Mail and Canadian Press pieces are more neutral and balanced.

Prepared by: Bharat Patel, Manager (A) External Reporting
Date Prepared: October 3, 2016

Approved by:	**Name:**	**Date Approved**:
Director	Nadine Petsche	October 3, 2016
ADM	Cindy Veinot	October 3, 2016
Communications Branch	Emilie Smith Ann Doose	October 4, 2016

Appendix

Preparation and Tabling of the Public Accounts:

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

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

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

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

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

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

PUBLIC SECTOR ACCOUNTING BOARD INITIATIVES

Question: What happens when PSAB changes their standards?

SUGGESTED RESPONSE

- **PSAB continues to develop guidance for financial reporting**
- **The Province must review the changes in context with accountability and transparency objectives to ensure they are being met with the new standard**
- **This is an ongoing process which may impact current thinking related about existing standards and how they are implemented.**
- **Since the Province aligns our budgeting, estimates and reporting with PSAB there are many considerations on how changes to standards may impact the financial management, planning and transparency of reporting government activity.**
- **In particular the new Financial Instruments Standard introduces market value volatility which does not align with the accountability models used by government.**

CURRENT STATUS

This is an ongoing consideration that PSAB standards may not align with the requirements of legislation such as The Financial Administration Act (FAA) and Fiscal Transparency and Accountability Act (FTAA) and internal processes.

BACKGROUND

PSAB 3450 — Financial Instruments and PSAB 2601 — Foreign Currency Translation

PSAB has introduced new sections on Financial Instruments and Foreign Currency Translation that categorize items to be accounted for at either fair value, cost or amortized cost. Fair value measurement applies to derivatives and portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized (for example, through disposition), any gains and losses arising due to changes in fair value (remeasurements) will be reported in the Statement of Remeasurement Gains and Losses. PSAB has agreed to further explore the views of the stakeholders in the areas of hedge accounting and linkage to the Concepts Underlying Financial Performance project. PSAB has extended the effective date of these standards until fiscal year 2019–20.

PSAB 2200 — Related Party Disclosures

PSAB has issued a new standard on Related Party Disclosures. This standard requires disclosure of related party transactions if they have a material financial effect on the Consolidated Financial Statements and only if those transactions occur at a value different from what would have been arrived at if the parties were unrelated. Transactions involving key management personnel and their close family members may be required to be disclosed if they meet certain criteria. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

PSAB 3420 — Inter-Entity Transactions

PSAB has issued a new standard on Inter-Entity Transactions. It establishes standards on how to account for and report transactions between public-sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This standard covers recognition and measurement and references disclosure of information about Inter-Entity Transactions, in accordance with the Related Party Disclosure, Section PS 2200. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

Concepts Underlying Financial Performance

PSAB is currently in the process of revisiting its conceptual framework, which establishes principles for the development of standards used for financial reporting by the public–sector entities in Canada. The conceptual framework is important to ensure public–sector standards appropriately reflect the economic substance of government transactions and to support transparency and accountability in public-sector reporting. PSAB continues with stakeholder communication activities and is currently deliberating on comments received on their latest consultation paper.

Asset Retirement Obligations

PSAB is currently developing an exposure draft for a new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

Revenue

PSAB is currently developing an exposure draft for revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

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Prepared By:
Date Prepared:
Date Updated:

USE OF LEGISLATED ACCOUNTING STANDARDS (Past Use)

Question - Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

SUGGESTED RESPONSE

- **The Auditor General's 2015 Annual Report included references to provincial legislation, and states that if the difference between legislated accounting and PSAB based results is material, that she would issue a qualified opinion.**

- **Prior to 2015-16, the Province's only use of legislated accounting was in reference to the Investing in Ontario Act which the former Auditor General agreed was aligned with PSAB.**

- **For the 2015-16 Public Accounts, the Province introduced legislation related to the consolidated financial results of the province once more, but this time it is time-limited and aligns with the auditor's interpretation of PSAB for pension assets of jointly sponsored pension plans.**

  The use of legislated accounting in the 2015-16 financial statements helped to mitigate confusion over the Province's reported results, while allowing time to further assess the application of PSAB to jointly sponsored pension plans. With the exception of legislated pension accounting, the remaining accounting policies applicable to the Province's

consolidated financial statements are aligned with PSAB.

- **Any decisions to use legislation, whether in relation to the Province's consolidated financial statements or controlled organizations, were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.**

- **The province has used legislated accounting selectively to clarify and confirm the consistent application of accounting treatment for government organizations that is appropriate under PSAB across the many organizations included in the Province's financial results. An example includes direction on the use of deferred capital contribution accounting by controlled organizations. In this case, the use of legislated accounting was not intended to override PSAB, but rather to ensure consistent accounting among controlled organizations with the PSAB compliant accounting policy used by the Province.**

CURRENT STATUS

- **The Province released its unaudited financial statements in the Annual Report on October 3rd. The financial statements reflected legislated accounting for pension assets related to jointly sponsored pension plans which aligned with the Auditor General's proposed basis of accounting.**

BACKGROUND

Although the Auditor General's 2015 Annual Report includes references to provincial legislation, until 2015-16, the measurement and reporting of the province's results was in accordance with Public Sector Accounting Standards. Prior to the introduction of time-limited legislated accounting for pension assets in the 2015-16 Annual Report, the only previous legislated accounting that has ever impacted the Province's Public Accounts was the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act was also time-limited and only applied to the 2008-09 Public Accounts. Until 2015-16, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all cases where we have used legislated accounting, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

With regards to the Investing in Ontario Act, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability which was subsequently confirmed by the AG as being in accordance with PSAB. Direction provided to controlled entities was to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards. A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. In addition, both entities report on US GAAP as permitted by securities regulators.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which have been consistently based on PSAB until 2015-16 when legislation was used to report pension assets related to jointly sponsored pension plans.

Prepared By: Ian Provis
Date Prepared: October 3, 2016

PUBLIC SERVICE NON-PENSION RETIREMENT BENEFITS

HOW DO THE UPCOMING CHANGES TO THE POST-RETIREMENT BENEFITS STANDARD AFFECT ONTARIO PUBLIC SERVICE EMPLOYEES?

SUGGESTED RESPONSE:

- Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.
- On February 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.
- PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of January 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.
- Also, eligible persons who have not commenced receiving a pension before January 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.
- Employees who commenced receiving a pension before January 1, 2017 will not be affected by these changes.

- Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.
- Some other public sector workers pay 100% of their benefits premiums.
- Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.
- Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

CURRENT STATUS

Recent OPSEU Concerns with Changes to Post Retirement Benefits:

- On June 1, 2016 OPSEU submitted a formal letter responding to the government's announced changes to Post Retirement Benefits, claiming that the changes were unfair to OPSEU members and adversely impact the government's finances in unintended ways.
- The OPSEU letter recommends that further negotiations on the policy and alternative cost-saving measures be held and that the decision to implement a 50:50 premium cost-sharing be delayed until Jan. 1, 2018.
- On June 16, 2016, OPSEU submitted a second letter articulating interest and intent to jointly discuss the development of a viable alternative Post Retirement Benefits option.

Accounting per Auditor General (AG)

- The AG considered the evaluation as well as the accounting for this transaction and noted that it could have had a high audit risk due to potential impact of the gain on the Province's annual deficit.
    - OAG engaged their own actuary expert to review the plan's report, the underlying assumptions, and confirmed that the estimates used by the actuary were reasonable and met the standards of the Canadian Institute of Actuaries.

- The AG confirmed that the government has accounted for the changes to public service non-pension retiree benefits in accordance with Public Sector Accounting Board accounting standards and the estimated gain amount was determined appropriately.

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BACKGROUND:

GENERAL INFORMATION ABOUT OPS PENSION PLANS:

- The OPS participates in two pension plans:
    - The Public Service Pension Plan, for which the government is the sole sponsor; and,
    - The OPSEU Pension Plan, which the government co-sponsors with the Ontario Public Service Employees Union.
- OPS pension plan members pay 50% of the contributions required by their pension plans, on average between 7% and 10% of their annual salaries.

- Both plans provide defined benefits, so retirees are provided with a monthly pension based on a fixed formula, in contrast to a defined contribution type of pension, which is more like an RRSP.
- Pensions are part of the total compensation for public servants and included in the results of the Province on an accrual basis.

Prepared By: Ian Provis
Date Prepared: October 3, 2016
Date Updated:

RATE REGULATED ACCOUNTING

Question: What is the concern with rate regulated accounting?

SUGGESTED RESPONSE

- **Financial statement users need to be able to understand the financial impacts of rate regulation when looking at the financial results as it is separate from the general revenues and expenses of the government.**
- **Decision makers need to be able to understand the decisions of the rate regulator and to be able to identify regulatory deferral account balances, in order to predict future cash flows.**
- **The regulatory environment such as the one found in Canada is strong and support the recoverability or settlement of regulatory deferral account balances.**
- **There is great value in having the financial effects of rate regulation reflected through the inclusion of amounts in the financial statements, rather than being communicated in the management commentary, because of the higher level of assurance provided by the financial statement audit.**
- **As compared with note disclosure only, the recognition of regulatory deferral account balances in the primary financial statements increases the visibility of the financial effects of rate regulation and, thus, the ease with which users can complete their analyses and perform comparisons.**

CURRENT STATUS

Rate regulated accounting continues to important to support transparency and accountability as it reflects the economic substance of activities for rate regulated

entities. The absence of a definitive decision by the IASB continues to be a concern to rate regulated entities, regardless of the fact that there is an interim standard that would grandfather rate regulated accounting.

In the absence of rate regulated accounting, the consolidated financial position of the province would not reflect the economic substance of OPG and H1 activities and undesirable volatility would be introduced into the Province's books.

We acknowledge the AG's position that OPG and H1 results should have been reported on our books as at January 1, 2015 (the date at which the deferral ended), however, in accordance with the province's accounting policy, the earliest possible date that such a change would be reflected on the Province's books is April 1, 2015.

A paper examining the decision-usefulness of financial information that reflects the economics of rate-regulated activities will be discussed at upcoming meetings of the AcSB, the International Forum of Accounting Standard Setters, and the Accounting Standards Advisory Forum (ASAF).

The Province will continue to monitor the IASB's project on rate regulated accounting.

BACKGROUND

The Accounting Standards Board (AcSB) is participating in the International Accounting Standards Board's (IASB) comprehensive project to determine whether (or how) IFRSs should be amended to provide guidance on rate-regulated activities. In January 2014, the IASB issued interim IFRS 14 Regulatory Deferral Accounts to provide guidance for first-time adopters of IFRSs with rate-regulated activities pending completion of this project.

The AcSB's due process includes ensuring those Canadian entities' financial reporting needs are considered by the IASB and issuing the AcSB's own exposure draft on each IASB proposal. Subject to the responses to the AcSB's exposure draft on whether the IASB's proposals are appropriate for application in Canada, the AcSB expects that the amendments will be incorporated into Canadian GAAP in accordance with the AcSB's strategy of adopting IFRSs for publicly accountable enterprises.

Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual

results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016
Date Updated:

From:	Sawosch, Mercedes (TBS)
To:	Patrick Laughton (MOF); Jason Wesley (MGS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Matthew Sylvain (MOF); David Morris (MAG); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject:	RE: SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 5:59:06 PM
Attachments:	20160926 Information Note - FSDA Enhancments.docx CINs - Changes to the Standard Audit Report.docx CINS - Financial Instruments Standard .docx CINS - Implementation of Liability for Contaminated Sites final .docx CINS - WSIB PBGT MVACF Unfunded Liability np_cv.docx HBN Consolidated Financial Statement 100416.doc

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Here's what we have so far.

From: Laughton, Patrick (TBS)
Sent: October-04-16 5:57 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – a few more we were asked to do which I have added to the list.

Some of these are finished now and Mercedes sending in a moment.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:55 PM
To: Ize-Dukuze, Marilyn (MOF); Laughton, Patrick (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hi there,

From my list, the others are:

1. WSIB Unfunded Liability, PBGF, MVACF (accounting)
2. Use of Legislated Accounting Standards
3. Financial Instruments Standard
4. Rate Regulated Accounting
5. Implementation of Liability for Contaminated Sites
6. Potential Changes to the Standard Audit Report
7. Public Sector Accounting Board Initiatives
8. Legislated Accounting Standards
9. FSD&A Enhancements
10. 2015-16 Annual Report and Unaudited Consolidated Financial Statements

(I already sent PRRT and retirement benefits)

J

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:48 PM
To: Laughton, Patrick (TBS); Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

BudSec is including the 2 CINS Jason just shared.

What are the other outstanding CINS? The names at least, so we can add to the TOC?

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Laughton, Patrick (TBS)
Sent: Tuesday, October 4, 2016 5:46 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – my understanding is we are all done on the friendlies, there were some additional CINs that we were developing on the TBS side, I am wondering if there is merit in including them in the TOC and we can insert them in the binders once they are ready. **Mercedes** can confirm but we're expecting these very soon.

P.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:39 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thx M – just FYI – I did incorporate some feedback from OTB on the TBS portion of the friendlies that I flipped over…

J

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:35 PM
To: Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)

Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Bud Sec is printing away. Waiting for final comments from OTB on friendlies and binders will be coming up.

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Wesley, Jason (TBS)
Sent: Tuesday, October 4, 2016 5:01 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hello MOF,

As requested, attached are the TBS products for SCOPA. They are:

- Our input into the consolidated friendly Q document
- Our General QA on TBS related issues that may arise
- The QA for the separate tab on the 15-16 public accounts – this is the supporting messaging to be used as a contingency if the DM's need to go there
- Our DM's speaking notes (Marilyn, when I time them for our DM's style it seems to come in at about 9-10 minutes or so)

Also, if you are still including the CIN's – attached are the two that I have (PRRT and retirement benefits) – Patrick may have more to add. Pls let us know if you plan to include them.

Hope this helps,

Jason

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 2:35 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Wesley, Jason (TBS); Smith, Emilie (TBS); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF)
Subject: SCOPA Materials | Final Binders
Importance: High

Hi all –

List of Materials requiring edits by EOD as per 12pm meeting. I've attached the latest

version of each document.

Remarks

- DM Orencsak (10mins)
- DM Thompson (5mins) – please remove references to 2015-16 PA
- Gadi Mayman (3mins) – please remove references to 2015-16 PA
- Tom Teahan (3mins) – **WSIB will share these shortly, I've advised them of the timing.**

Friendly QAs - please remove references to 2015-16 PA

- **TBS Comms to provide edits TBS Questions and answers.**

General QAs (should only about 2014-15 PA, such as version used for Sept 30, 2016 meeting)

- MOF (OFA has already made their edits, folks can continue working from that version)
- TBS (TBS Comms, can you share this once you've separated out the 2015-16 QAs?)

2015-16 PA Q&As Package – should be separate from General QAs on 2014-15 PA

- TBS Comms to provide. I have already sent CEFD and OTB edits for this document.

Let me know if there are any questions via this thread.

Thanks

Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

Information Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting Branch

Enhancements to the 2015-16 Public Accounts FSD&A

Purpose:
The purpose of this information note is to provide background information on the enhancements made to the 2015-16 Public Accounts Financial Statement Discussion and Analysis (FSD&A).

Background:
Every year, the Auditor General reports on her examination of government resources and administration in an Annual Report tabled by the Speaker of the Legislative Assembly in the Legislature. Tabling is usually at the end of the year, at which time the Annual Report becomes public.

In 2015, the Chapter 2 had three main areas of focus: Ontario's debt burden; Ontario's annual report – specifically, the FSD&A – and; issues related to specific accounting practices.

Summary of the AG recommendations:
The following table outlines the recommendations made by the AG in Chapter 2 regarding Ontario's FSD&A.

Issue	Recommendation	TBS response
Ontario's Annual Report	We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.	We will consider how the suggestions outlined in PSAB's Statements of Recommended Practice (SORP) might help to enhance the quality of the province's future reporting.

Summary of the FSD&A enhancements:

The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government

reviewed reporting practices of other senior Canadian governments and also referenced recommended practices issued by the Public Sector Accounting Board.

A number of planned enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.
- Expanded tables for financial highlights section
- Expanded tables for analysis of results
- Multi-year trend analysis of revenues and expenses
- Expanded discussion of revenue sources (including multi-year trend)
- Discussion of spending by type of expense (new pie chart)
- Analysis of financial assets and tangible capital assets (including multi-year trends)
- Analysis of liabilities and debt (including multi-year trends)
- Key financial ratios and multi-year trends covering Sustainability, Flexibility, and Vulnerability
- Multi-year trend and discussion of fiscal management (budget-to-actual deficit figures)

Prepared by:	Rob Scheifley	416-325-8082
Approved by:	Ian Provis	416-327-2722
Date:	September 26, 2016	

CHANGES TO THE STANDARD AUDIT REPORT

Question: How will recent changes to auditing standards impact the AG's reporting on future Public Accounts audits?

SUGGESTED RESPONSE

- **The recent changes to Canadian Auditing Standards do not directly affect the Province in its preparation of the Public Accounts. The changes impact the structure and content of the Auditor General's future audit opinion letter.**

CURRENT STATUS

- A key change to the opinion letter that is being proposed relates to a new paragraph or section that enables the auditor to communicate key audit matters that, in the their professional judgement, were of most significance to the audit of the financial statements, such as:
    - Areas identified as significant risks or involved significant management or auditor judgement;
    - Areas in which the auditor encountered significant difficulty; and
    - Significant deficiency in internal controls
- The Auditor General currently communicates these matters through Chapter 2 of its Annual Report.
- The new opinion letter is expected to be used for the audit of the province's March 31, 2017 consolidated financial statements.

BACKGROUND

- The Auditor General's Annual Report (Chapter 2) report is typically published in December, months after the completion of the Public Accounts audit. statements.

- The additional Matter of Emphasis paragraph included in the expanded auditor's report is something that the Public will see at the same time as the opinion paragraph which reflects the AG's opinion on whether the financial results are fairly stated.

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016

FINANCIAL INSTRUMENTS STANDARD

Question: Will the Province be ready to implement PSAB's Financial Instruments standard for the 2016-17 Public Accounts, as per the Auditor General's recommendations? What is the impact of this change?

SUGGESTED RESPONSE

- **The Province continues to work with the OFA and PSAB to address issues with the Financial Instruments accounting standard. PSAB has delayed the implementation date of the standard for senior governments to the fiscal year 2019-20.**

CURRENT STATUS

PSAB approved an amendment to the transitional provisions in Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments, to extend the effective date to April 1, 2019 from April 1, 2016.

Since the issuance of Section PS 3450, Financial Instruments, there have been reports of transition and other issues that have been brought to the Public Sector Accounting Board's (PSAB) attention.

PSAB now has an active project to consider these issues as they arise. PSAB staff continues to meet with stakeholders and are expected to make report back to their board in September 2016. The summary/results of the PSAB meeting are expected by mid-October 2016.

BACKGROUND

The province uses financial instruments and derivatives (foreign-exchange forward contracts, swaps, futures and options) to manage or hedge against risk related to debt financing. Currently, PSAB guidance on accounting for derivatives is limited to their application in hedging foreign-currency items.

The new proposed standard was scheduled to come into effect April 1, 2019.

In the 2014 AG Report, Auditor General of Ontario has outlined some of the significant issues that the proposed Financial Instruments standard may affect the financial results of senior Canadian governments, including Ontario.

Despite concerns raised, PSAB reaffirmed in February 2014 its commitment to the new proposed standard.

PSAB met with the Ontario Financing Authority in the summer of 2014 to highlight again the concerns the province had with the new standard.

In January 2015, OPCD wrote a letter to PSAB recommending a Task Force be created to revisit this issue. Other jurisdictions similarly at this time also wrote letters to PSAB again expressing their concern with the new proposed standard.

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016
Date Updated:

October 3, 2016

LIABILITIES FOR CONTAMINATED SITES

Issue: In addition to commenting on financial reporting on contaminated sites in Chapter 2 of her Annual Report, the Auditor General is also released a Value for Money Audit Report on the government's management of contaminated sites.

KEY MESSAGES:

- The Auditor General noted that Ontario successfully implemented a new accounting standard on contaminated sites in the province's Consolidated Financial Statements for the 2014/15 Public Accounts.
- 2014-15 was the first year of reporting under the new accounting standard which expanded the scope of liabilities reported by public sector entities and governments.
- Remediation liabilities under the new accounting standard were estimated at $1.79 billion as of March 31, 2015, an increase of $1.68 billion from the $107 million in liabilities previously reported by the government.
- Incremental liabilities reported on the 2014-15 financial statements did not impact the annual deficit but were added to overall net debt. From 2015-16 onwards, any net new liabilities would impact the annual deficit year in which they are reported.

IF ASKED ABOUT HEALTH AND SAFETY:

- Ontario is committed to protecting the environment and the well-being of our residents.
- We are aware of the historic environmental issues at former mining, industrial and other sites across the province and we are responding to the health and safety risks associated with these sites.
- Over the last five years, the Ontario government has spent approximately $190 million to help clean up contaminated sites across the province.

IF ASKED ABOUT RECOMMENDATIONS:

- The Auditor General identified a number of areas for improvement and many of those improvements were already underway in various initiatives.
- With regards to her audit of the government's financial statements, the Auditor General was satisfied with the completeness of the government's identification and inventory of high-risk sites across Ontario as the basis for her liability estimate.
- To respond to the Auditor's recommendations, the government committed to setting up a central oversight function which will oversee management of these sites using a risk-based approach.
- In addition, the government is working on finalizing a formal site assessment framework to help prioritize future work on contaminated sites.

EXAMPLES OF CURRENT CLEANUP ACTIVITIES

- Over the last five years, the Ontario government has spent approximately $190 million to help with contaminated sites across the province.
- Prior to 2014-15, the Ministry of the Environment and Climate Change spent $19.7 million on capital and operating costs at the Deloro site in Hastings County and another $3 million at other sites.
- The Ministry of Northern Development and Mines budgeted $4 million to cover ongoing operations and maintenance in fiscal 2014-15, and 75% of that budget was spent on rehabilitation projects at various sites.
- The Ministry of Natural Resources and Forestry last fiscal 2014-15 spent $23.1 million on remediation and rehabilitation of three separate contaminated sites.
- The Ministry of Municipal Affairs and Housing reports that to date Ontario has contributed $12.3 million to support the remediation of Regent Park.

WHAT IS BEING DONE TO PREVENT FUTURE LIABILITY:

- The Ministry of Environment and Climate Change has developed and implemented a Financial Assurance Program in order to minimize liability related to abandoned waste sites and other operations that may require remediation.
- The financial assurance program requires the regulated community to post money up-front for any potential future remediation activities that may be necessary.
- Since the introduction of the program in 1986, the ministry has collected $430 million in financial assurance. To date, about $12 million has been applied towards site specific remediation.
- Under the *Mining Act,* the Ministry of Northern Development and Mines receives Closure Plans and appropriate amounts of Financial Assurance for all producing mines and advanced exploration projects in Ontario.
- Funds can only be used for the rehabilitation of the specific mine site that they are submitted for, so the funds cannot be pooled for the rehabilitation of any mine in the Province.
- MNDM currently holds $1.6 billion in financial assurance for the rehabilitation of specific mine sites and advanced exploration projects. These funds include more than $1 billion in “hard” forms of security, such as cash, letters of credit, and surety bonds.

IF QUESTIONED IN-DEPTH ABOUT SPECIFIC SITES:

- Treasury Board Secretariat is not directly involved in the oversight or operation of any of these sites.
- Please direct in-depth questions on specific sites to the appropriate ministry.

Background:

- The AG noted that the government has long recognized that it lacks a co-ordinated approach or method for assessing contamination risks across ministries and agencies. It has also long recognized the need for a system for centrally prioritizing the actions necessary to address contaminated sites as a whole.

- The government needs this co-ordinated approach and system in order to:
    - Consistently assess the risks associated with its contaminated sites;
    - Consistently prioritize sites to identify those most in need of remediation;
    - Consistently allocate appropriate funding to sites that pose the greatest risk; and,
    - Develop a long-term funding model to ensure that remediation resources are allocated, on an ongoing basis, to where they provide the most benefit.

- Recognizing that its approach to managing contaminated sites was fragmented, the government in its 2011 Budget announced its intention to co-ordinate its environmental clean-up activities across the province, the AG wrote in her report.
- Accordingly, Treasury Board Secretariat directed the relevant ministries to together develop a comprehensive environmental clean-up strategy.
- The strategy was to included three initiatives consolidation of funding, a single inventory of contaminated sites, and the development of a risk-based approach to prioritizing governance structure for contaminated sites managed by a new Contaminated Sites Project Office.

- The AG's VFM audit report includes recommendations dealing with:
    - Need for Centralized Oversight of Contaminated Sites;
    - Centralized inventory for contaminated sites needed;
    - Contaminated sites need to be prioritized for remediation;
    - Lack of funding and resource allocation strategy for remediation;
    - Improved guidance needed to ensure consistent liability estimates;
    - Inadequate documentation supporting the contaminated sites liability; and,
    - Lack of policies or processes for updating liability estimates

- During the Public Accounts audit, the AG found several instances of ministries making errors in initially estimating their liability for contaminated sites. These errors arose from deficiencies in the processes put in place to address the requirements of the new accounting standard.

- All of these errors were corrected by ministries before the province's March 31, 2015 consolidated financial statements (the Public Accounts) were finalized and would not have been material to the province's financial results.

- A new standard for contaminated sites accounting was issued by the Public Sector Accounting Board – Liability for Contaminated Sites (PS 3260). The standard is effective for fiscal 2014-15 (April 1, 2014 onward). Accordingly, Ontario first recognized its liabilities for sites in accordance with PS 3260 in the March 31, 2015 Public Accounts.

- The province had already initiated actions to enhance effective management over contaminated sites prior to the AG's audit, and well in advance of the effective date of the new accounting standard. For example, Budget 2011 announced the intent to coordinate environmental cleanup activities. TBS directed ministries to develop a comprehensive cleanup strategy that would include consolidation of funding, a single inventory of contaminated sites and to develop a risk-based approach to prioritize remediation projects. TBS also recommended the eventual creation of a centralized government structure for contaminated sites, managed by a new Contaminated Sites Project Office.

- The Ministry of Environment and Climate Change was responsible for reporting to TBS. Specifically, three working groups were supposed to deliver a final report in

July 2013, containing detailed recommendations for establishing and operating the new project office. There was some interim reporting to TBS, but progress was slow and a final report to TB/MBC is still outstanding.

- The implementation of PS 3260 and the need to estimate additional liabilities under the new standard increased the profile for contaminated sites. The status of implementing a central oversight function and related tools to support decisions, monitoring and reporting directly impacted the ability to derive estimates of reportable liabilities. With regards to the AG's suggestion that the government lacks a funding and resource allocation strategy, it is important to note that the incremental liabilities have all been appropriated. Only incremental liabilities or changes to the existing estimates will require additional appropriations in the future.
- The enterprise-wide inventory of contaminated sites, including all new liabilities reported under the new standard, and prioritization thereof, will enhance risk prioritization and resource allocation decisions.
- Two categories of contaminated sites account for most of the $1.4 billion of total liability – former mineral extraction sites and office/commercial/industrial sites.

AUDITOR GENERAL -- VFM AUDIT -- SUMMARY

- The AG audit found weaknesses in the government's processes for identifying, measuring and reporting on its contaminated sites liability. These weaknesses heightened the risk that the government's liability could be misstated; however, the province made all audit adjustments which were not material to our financial statements.
- The AG found that there was no centralized ministry oversight over the ministries' processes for managing their contaminated sites and estimating their contaminated site liabilities. The AG believes this lack of oversight was ultimately responsible for most of the errors and issues. The Province's response to the finding reflects the status of government initiatives already underway at the date of the audit. Further details of specific recommendations are provided below.
- The AG report also expressed concerns regarding the accuracy of the government's estimate of its liability for contaminated sites. The AG accordingly would like to see a continuing focus on improving the precisions of the estimate in future years as more assessment work is done and updated when other or new information becomes available.

AUDITOR GENERAL – VFM AUDIT – RECOMMENDATIONS & DETAILED MANAGEMENT RESPONSES

Recommendation 1:

To ensure that contaminated sites for which the government is responsible for are identified and properly assessed, and that provincial liabilities are identified and valued on a timely basis:

- **The government should designate a dedicated ministry division or branch with overall responsibility for managing contaminated sites; and,**
- **The Inter-Ministerial Contaminated Sites ADM Steering Committee should perform an oversight role until this function or co-ordinated team is established.**

The AG commented that without proper oversight, governments cannot ensure that their initiatives are implemented as expected or on a timely basis. Poor oversight of the processes used in the contaminated site initiative was ultimately responsible for most of the issues and errors found in the audit.

AG wrote that:

- An Assistant Deputy Minister's Steering Committee planned to meet monthly under its Terms of Reference, but met only twice since August 2012.
- Working groups created to deliver under TBS three contaminated sites initiatives had not fully completed their work.
- No new or existing provincial lead body had been assigned overall responsibility for overseeing implementation of the initiatives.
- An overall conclusion that the work requested by Treasury Board in the 2011-12 fiscal year had not been satisfactorily completed.

Ministries did not have sufficient direction to ensure that they correctly assessed their contaminated sites and estimated the liabilities associated with them.

Response:

The Province recognizes the benefit of a central oversight function to support effective risk mitigation and management of contaminated sites. We concur with the Auditor's recommendations and will establish a central oversight function to ensure a coordinated and consistent approach to the identification, tracking, risk assessment and prioritization of contaminated sites across government. Ministries will continue to exercise their accountability for managing risks for individual sites.

The Province will implement the appropriate governance structure to address both immediate and long-term needs for central oversight of contaminated sites.

Recommendation 2:

To ensure that the government has a complete picture of its existing and potential contaminated sites liability, the stakeholder ministries should ensure that:

- **A centralized database inventory of all contaminated sites is developed and implemented; and,**
- **The public has access to information on contaminated sites for which the government has recorded a liability.**

The AG noted that government does not have a centralized inventory of its contaminated sites, and that each ministry tracks its own sites and maintains its own records of actions, such as environmental site assessments or remediation efforts.

The report noted that without centralized information, it would be impossible to track, prioritize and fund contaminated sites using a government-wide perspective.

The Ministry of the Environment and Climate Change planned to have a centralized database of contaminated sites and populate the data base with existing and additional detailed information by the end of the 2014/15 fiscal year.

Response:

As part of the Province's initiative to enhance governance over contaminated sites, the Office of the Provincial Controller, in collaboration with stakeholder ministries, has completed a review of existing technologies to track contaminated sites across the province with the intent to establish and implement an enterprise-wide central inventory of all contaminated sites in 2016.

The Province is currently disclosing information on contaminated sites in accordance with Public Sector Accounting Standards. Analysis will be undertaken to support future government decisions on the extent and nature of any additional public access to information on contaminated sites.

Recommendation 3:

To ensure that the cleanup of high-priority sites is consistently funded before that of low-priority sites, the stakeholder ministries should finalize the risk prioritization model and ensure that ministries use this model to assess all remediation funding proposals.

At the time of the AG's audit, the Ministry of the Environment and Climate Change had developed an OPS-wide risk prioritization model for contaminated sites, but the model had not been approved or implemented. The model was awaiting approval from the ADM Steering Committee and is planned for rollout to ministries in the fall of 2015.

Response:

The focus of the Province in 2014/15 was to effectively implement PS 3260, including a reasonable estimate of the contaminated site liability as at March 31, 2015 for Public Accounts purposes. At the time of the audit, the province's efforts to implement a consolidated risk-based prioritization tool were also well underway. Ministries worked with a consultant to develop a risk-based prioritization tool that will allow for both the prioritization of sites for remediation, as well as the prioritization of sites that require further study, on a government-wide basis. Approval of the tool and adoption by the ministries is expected in the current fiscal period. Effective implementation of the tool in conjunction with the oversight function will help to mitigate the risk of the government proceeding with remediation on low priority sites before higher priority sites for the Province.

Recommendation 4:

To ensure that ministries have sufficient resources available to remediate their high-risk sites in a prudent manner, the stakeholder ministries should:

- **Co-ordinate the development of a long-term plan for remediating the province's contaminated sites. The plan should incorporate both an annual and a long-term funding strategy; and,**
- **Periodically report to Treasury Board, on a consolidated basis, their progress in remediating sites under their annual and long-term plans.**

The AG pointed out that the government currently has no overall funding strategy or resources allocated specifically for the management of its contaminated sites.

Without dedicated funding and sufficient dedicated resources, the report outlined some potential problematic concerns: high-risk contaminated sites could be improperly classified as low risk, or inappropriate remediation strategies could be selected.

Remediation strategies selected because of resource constraints may keep current costs low, but could prove much more costly later.

Failure to address this issue properly risks shifting the costs associated with contaminated site remediation to the next generation, negatively impacting the province's ability to preserve a healthy and sustainable environment for future years.

Ministries did not receive any specific or additional funding/ resources to assist in the implementation of PS 3260, and had to use existing program resources for the initiative.

Response:

The enterprise-wide inventory of contaminated sites, including all new liabilities reported under the new standard, and prioritization thereof, will enhance risk prioritization and resource allocation decisions to inform the funding strategy. Ministries will be asked to provide rolling updates to their long-term remediation plans, including their cash flow forecasts related to remediation work planned each year, and to report on progress.

Periodic reporting to Treasury Board/Management Board of Cabinet would improve transparency on the progress and outcomes ministries have achieved in remediating contaminated sites. This approach aligns with the government's commitment to outcome-related measures which assess the effectiveness and efficiency of government

programs and activities. Reporting considerations will be addressed as part of the design and implementation of a central oversight function.

Recommendation 5

To ensure that the government's ongoing contaminated sites liability estimate is reasonably and consistently calculated, the Office of the Provincial Controller Division should provide formal guidance to ministries on how to account for and measure these liabilities.

The government needs to improve the guidance it provides ministries to help them estimate their contaminated sites liability

Without clear direction, ministries have been developing and applying different approaches to assessing and evaluating their particular sites.

The AG identified errors totaling $95 million in the government's initial liability estimates for contaminated sites.

Response:

Important insights were gained through Ontario's experience implementing PSAB's new accounting standard. Significant challenges encountered in implementing the standard included interpretative issues related to the standard, completeness of contaminated site inventories and estimates of remediation costs. Through effective collaboration and communication, a reasonable estimate of liabilities for contaminated sites was achieved.

Building on this challenging but successful experience, the Office of the Provincial Controller Division will undertake to work with ministries in 2015/16 as well as with both internal audit and the Office of the Auditor General to enhance accounting guidance to ministries for reporting on contaminated sites under the new standard.

Recommendation 6

To ensure that future decisions and cost estimates for remediating contaminated sites are based on the best information available, and to prevent errors and inconsistencies, the stakeholder ministries should:

- **Improve the supporting documentation they maintain regarding contaminated site liability estimates. Documentation should include:**
  - **Explanations of how contaminated site was identified, including:**
    - **What risk-based approaches were used to identify high-risk sites?**
    - **What remediation strategies were selected, what assumptions were made in the estimation of the liability?**
- **Periodically review sites that have been classified as low risk to ensure that this classification remains valid.**

The AG found that the ministries' documentation to support their contaminated sites liability estimates was often of poor quality.

She stated that inadequate documentation raises the risk of errors and may lead to permanent loss of critical information.

Response:

Lessons learned through implementation of the new accounting standard will benefit ministries through enhanced documentation on risk assessments and cost estimates. Ministries will continue to refine and improve upon the quality of their documentation in future years. The centralized oversight body, once established will provide ministries with further direction in this regard consistent with Auditor General's recommendations.

Ministries will regularly review information related to contaminated sites, which will serve as input to both risk management over contaminated sites and in conjunction with the Public Accounts process.

Recommendation 7

To ensure that the contaminated sites liability estimates reflect newly available relevant information:

- **The stakeholder ministries should implement a process for annually reviewing all of their liability estimates. This process should include a review of remediation costs incurred to date and assessment of those costs in relation to the recorded liability to determine if the liability estimate needs to be updated; and,**
- **The Office of the Provincial Controller Decision should provide the ministries with guidance for carrying out this annual exercise, and carefully monitor ministry liability submissions to ensure that adjustments are made when required before their inclusion in the province's consolidated financial statements.**

The province currently has no formal policies or guidelines, other than PS 3260, requiring ministries to monitor their sites and incorporate newly available information into their site assessments and liability valuations. The AG opined that without such monitoring in place, the valuations reflected in the government's sites liability could fall out of date and no longer accurately reflects the best estimate of its obligations to a particular site.

The government should review its sites liability annually.

Response:

The Province's existing initiatives to enhance prioritization, risk management and reporting for contaminated sites will include a requirement for ministries to regularly update site information, both to identify additional risks and changes impacting management decisions related to contaminated sites and to ensure complete and reasonable liability estimates are reported in the Province's Public Accounts.

As part of these efforts, consideration will be given by the centralized oversight body and the ministries to the appropriate triggers and/or timelines to initiate more in-depth site assessments or liability estimates such as changes in technology, site conditions, or changes in environmental standards.

AUDITOR GENERAL - VFM AUDIT – FINANCIAL SECURITY

The province's liability for contaminated sites contains a number of former mines and landfill sites because operators failed to meet their obligations and have insufficient financial resources to remediate the contamination on their sites. In these cases, the site has reverted to the care and control of the province. (It should be noted that landfill sites are treated separately from PS 3260 in accounting standards).

Mining companies and landfill site operators are legally responsible for remediating their sites. Mine operators are required under the Mining Act to return their sites to the standard defined in their approved closure plan, regardless of any financial security provided to MNDM.

The Ministry of Northern Development and Mines and the Ministry of Environment and Climate Change each maintain a fund requiring that mining companies and landfill site operators provide the province with financial security, such as a deposit of funds or a letter of credit. This financial security provides assurance to the government that they can cover necessary remediation costs. MNDM and MOECC held $22 million and $31 million in cash financial security and $1,608 million and $408 million in no-cash security as of March 31, 2015.

The AG's Mines and Minerals audit noted a key weakness in the mines fund, namely inadequate financial security being obtained for future mine remediation costs.

The AG encourages the government to implement recommendations in the Mines and Minerals audit report to minimize its risk of being responsible for future reclamation costs of mining operations.

Current status

The financial assurance provided to MNDM is not part of the contaminated sites liability, but in a special purpose account.

It is obtained at a prescribed point in the mining process in accordance with an approved Closure Plan. It is maintained in prescribed forms and reviewed every 5 years to ensure the closure plan is still relevant and appropriately costed

In the event the Ministry's assessment of required assurance exceeds that provided for from the mining company, the Ministry may issue orders to remedy the situation

Ideally the fund assurance is returned to the company once Closure of the site has been completed and verified by the ministry through a site inspection.

In the event that a company fails to meet Closure requirements and/or faces financial distress, the ministry may undertake Closure steps on the companies' behalf and will recover costs from the FA held for the site – if at that point the assurance proves to be inadequate, the ministry will need to find other means to cover the shortfall.

EXAMPLES OF EXISTING REMEDIATION EFFORTS

Ministry of Environment and Climate Change

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- The ministry is committed to protecting the environment and Ontario residents from contamination, starting first with addressing the environmental risks posed by contaminated sites in a manner that reduces the fiscal risk to the province.
- For example, the ministry developed and implemented the Financial Assurance Program in order to minimize the ministry's liability related to abandoned waste sites and other operations that may require remediation.
- The financial assurance program requires the regulated community to post money up-front for any potential future remediation activities that may be necessary at a given site.
- Since the introduction of the program in 1986, the ministry has collected $430 million in financial assurance.
- To date, about $12 million has been applied towards site specific remediation.
- The ministry currently monitors financial assurance requirements for over 1,200 approved activities.
- Although neither a fine nor a penalty, holding financial assurance helps:
  - Encourage compliance with environmental requirements
  - Ensure that funds are available from the regulated community for future clean-up, remediation or site management should it become necessary.
- In addition, the ministry is strengthening the use of polluter pay principle approach to a number of programs including, environmental penalties for spills, extended producer responsibility programs for waste diversion and fees for hazardous waste.
- Ministry spending on contaminated sites fluctuate annually based on projects for which TBS approves funding. For example, in 2014-15 the ministry spent $19.6925M on Deloro (capital and operating) and about $3M on other sites.

Ministry of Northern Development and Mines

- Under Part VII of the Mining Act, the Ministry of Northern Development and Mines receives closure plans and appropriate amounts of financial assurance for all producing mines and advanced exploration projects in Ontario.
- However the funds that are collected can only be used for the rehabilitation of the specific mine site that they are submitted for, so the funds cannot be pooled for the rehabilitation of any mine in the Province.

- Abandoned mines, including both the Kam Kotia and the Crosswise Tailings sites, ceased operations prior to the requirement for CPs and FA.
- *MNDM currently holds $1.6 billion of financial assurance for the rehabilitation of specific mine sites and advanced exploration projects. These funds include more than $1 billion in "hard" forms of security, such as cash, letters of credit, and surety bonds.*
- *To date, MNDM has begun the rehabilitation of two sites (Timminco and Lockerby) using financial assurance that was supplied by the owner with their closoure plans.*
- *The AMRP receives an annual budget allocation of $4 milion. From that allocation, between $750,000 and $1 million is spent annually on on-going maintenance issues, such as the operation and maintenance of Kam Kotia. The remainder of the funds are expended on abandoned mine rehabilitation projects on sites throughout Ontario that may or may not have contamination issues.*
- *For example, during FY 2014/15, more than 75 per cent of the AMRP's annual allocation was spent on rehabilitation projects on contaminated sites, with the balance being spent on operation and maintenance issues, as well as the rehabilitation of abandoned mine sites that do not have contamination issues.*

Ministry of Natural Resources and Forestry

Steep Rock Mine

- In 2014-15, MNRF will spend approximately $2 million on the Steep Rock mine site, which includes:
  - the development of a conceptual rehabilitation plan;
  - addressing public safety and liability risks by closing open mine shafts and tunnels; and,
  - conducting various environmental assessments and site studies to support the planning process.

Hawkesbury Lagoon

- Over the period April 1, 2009 to March 31, 2015 approximately $11.6 million has been spent on the remediation project.
- In fiscal years 2014/15 MNRF will spend $6.280M
- In fiscal years 2015/16 and 2016/17 $18.3 million has been budgeted.
- The full projected remediation cost, since 2009 to the end of the current contracts, is $30 million.

Mid-Canada Radar Line Sites

- A Contribution Agreement was signed in May, 2009, between MNR and DND to provide for a Federal Government contribution of $30 million towards the clean-up project. The 2009/10 provincial budget identified $85 million as the total Ontario contribution to the MCLRS Project with a maximum $30 million recovery from Canada.
- In fiscal years 2014/15 MNRF will spend $14.835 million.

Ministry of Municipal Affairs and Housing

- Under the *Environmental Protection Act* the Ontario Mortgage and Housing Corporation, as a former owner of Regent Park, has a potential liability for contamination found on former public housing properties.
- As opposed to other provincial ministries, the Ministry of Municipal Affairs and Housing no longer owns or manages properties or other real estate assets.
- The ministry does not require a rehabilitation funding program, and any environmental remediation costs are reported and requested as part of the provincial Program Review, Renewal and Transformation (PRRT) process.
- To date, the province has contributed $12.3 million to support the remediation of Regent Park.

- A further $59.6 million is estimated to complete the remediation on the lands. This liability is recorded by the Ministry of Finance and has been earmarked for the project.

MINISTRY BY MINISTRY SPEND TABLES

Ministry of Environment and Climate Change.

Fiscal Year	Actuals, rounded
2010-11	8,586,000
2011-12	18,417,000
2012-13	17,023,000
2013-14	8,292,000
2014-15	22,068,000
Total	**74,385,000**

Ministry of Municipal Affairs and Housing

Fiscal year	Actual spend
2010-11	1,106,458
2011-12	3,359,640
2012-13	2,919,565
2013-14	1,794,181
2014-15	688,843
Total	**9,866,687**

Ministry of Natural Resources and Forestry

Fiscal year	Actual rounded
2010-11	11,000,000
2011-12	18,000,000
2012-13	16,000,000
2013-14	16,000,000
2014-15	24,000,000
Total	**85,000,000**

Ministry of Northern Development and Mines

Fiscal year	Actual rounded
2010-11	1,610,000
2011-12	7,560,000
2012-13	2,020,000
2013-14	6,300,000
2014-15	3,290,000
Total	**20,780,000**

Ministry of Tourism, Culture and Sport

Fiscal	Actual rounded
2012-13	56,000
Total	**56,000**

NOTE: Ontario Place - As part of the ongoing revitalization of Ontario Place and specifically related to the Park and Trail project a contaminated liability has been addressed this year. A risk assessment approach was undertaken which deemed all of the soil as non-hazardous. It was proven that the soil could remain on the site subject to certain risk management measures being implemented. As such, a 1.5 metre layer of clean soil was distributed across the park and trail. The associated cost for this was $2.2M in 2015-16.

Ministry of Economic Development Employment and Infrastructure

Since 2006, as part of the revitalization of the West Don Lands, the Province has committed to $304 Million in enabling works, which includes construction of a Flood Protection Landform and a new storm water management system that will stimulate

further private sector investment in the redevelopment of land uses within the former 210 hectare Don River floodplain west of the Don River.

Originated by: Alan Cairns 416-327-2805

Approved By	**Name**	**Date**
OPCD	John Psinas	November 18, 2015
OPCD	Sanjeev Batra	November 18, 2015
Communications	Alan Cairns	November 25, 2015

TRUST FUNDS UNDER ADMINISTRATION (WSIB, PBGF, MVACF)

Is there any significant change to the accounting for Trust Funds under Administration for 2015-16 Public Accounts?

SUGGESTED RESPONSE

- **There were no significant changes to the accounting for Trust Funds under Administration in the 2014-15 Public Accounts.**

- **The Workplace Safety and Insurance Board (WSIB), the Pension Benefit Guarantee Fund (PBGF) and the Motor Vehicle Accident Claims Funds (MVACF) are all Trusts under Administration and are not consolidated on the Province's books but are disclosed in the notes to the consolidated financial statements.**

- **The Province is not liable for the unfunded liabilities for the WSIB, PBGF or the MVACF, both of which are funded by external third parties.**

CURRENT STATUS

WSIB

- The AG supports the continued classification of the WSIB as a Trust given the progress achieved to date in working towards financial sustainability targets.

- The AG has committed to continue to monitor the progress on meeting the required funding sufficiency ratios and will re-evaluate her position annually based on the progress made towards meeting these commitments.

- In the event that the WSIB's plan does not continue to trend towards eliminating the overall unfunded liability, the AG will once again question its classification as a "Trust" and suggest that the WSIB should be consolidated onto the Province's books.

Pension Benefits Guarantee Fund (PBGF)

- Currently the PBGF is not included in the Province's consolidated financial statements as it is intended that any unfunded liabilities will be discharged by external parties.
- In the past, the Province has provided grants and loans to the PBGF.
- The Auditor General has stated that if the Province were to provide additional funding to the PBGF in the future, that she would request that it be consolidated onto the Province's books.

Motor Vehicle Accident Claims Funds (MVACF)

- Currently the MVACF is not included in the Province's consolidated financial statements as it is intended that any unfunded liabilities will be discharged by external parties.
- The MVACF is the latest in trusts under administration to have been identified by the Auditor as a potential candidate for consolidation if there is a constructive or equitable obligation on behalf of the province to cover debts of the organization.

BACKGROUND

WSIB

- This has been a recurring issue in the AG's Annual Report since 2009

- The WSIB's financial results have never been included in the Province's consolidated financial statements on the basis that it is classified as a Trust
    - Meaning that the province has no access to the assets of the Trust and has no responsibility to pay for any liabilities of the Trust.

- The inclusion of this section in the AG's Annual Report in 2009 was prompted by the significant unfunded liability that the WSIB was carrying (i.e. the amount by which its obligations exceeded its assets).

- Based on this, the AG was suggesting that the WSIB is not a true Trust (as defined above) and therefore its financial results should be consolidated with the province's.
    - The main argument for consolidation was that the province would be left to fund any shortfalls in the event that WSIB could not meet its obligations.

- In response to the AG's concerns, the WSIB undertook an independent funding review to ensure its long-term financial viability and retain its classification as a "Trust"

- Since then, a long-term financial sustainability plan was implemented that would see the WSIB become fully funded by December 31, 2027 (i.e. the unfunded liability will no longer exist by this date).

- The measures taken to date have had a positive impact on the WSIB's unfunded liability and the Trust is well on its way to achieving its 2027 target.

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year.

Pension Benefits Guarantee Fund (PBGF)

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year

Motor Vehicle Accident Claims Funds (MVACF)

- The accounting and reporting for the current year continues to be appropriate and is consistent with the previous year

Prepared By: Ian Provis
Date Prepared: October 3, 2016
Date Updated:

Confidential **October 3, 2016**

2015-16 ANNUAL REPORT

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

KEY MESSAGES:

- The Annual Report is a financial update, and reports on the Province's unaudited results against the 2015 Budget plan.

- The Annual Report contains similar content to the Public Accounts, except that it does not include the Auditor General's opinion which is needed to table the Public Accounts in accordance with the Financial Administration Act.

- The results for the Province were issued in unaudited form on October 3rd, because the AG has said that she could not provide an audit opinion on the Province's final financial statements that were submitted to her on September 29.

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

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

- The legislated accounting change impacts the 2015-16 results only and results in the same accounting treatment for pension assets as proposed by the Auditor General.

- The comparative results for 2014–15 have not been restated in the Annual Report which preserves the long-term comparability of year-over-year financial results and balances.

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

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

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

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

- This year, in addition to providing a comparison of actual to planned results, the Annual Report has been enhanced in several areas to further support transparency and accountability for readers.

BACKGROUND:

Revenue Highlights

Against 2015 Budget:

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

Against the Interim Estimates in the 2016 Budget:

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

Expense Highlights

Against the 2015 Budget plan:

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

Against the interim Estimates in the 2016 Budget:

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

Net Debt

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

Trillium Trust

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

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

Transparency and Accountability

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

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

Timelines of Tabling

- In accordance with the FAA, the Public Accounts, including the Auditor General's opinion, is required to be tabled within 180 days after the fiscal year end which fell on September 27, 2016.
- Once the Province receives the Auditor General's opinion for 2015-16 consolidated financial statements, it will complete the tabling of the Public Accounts.

RECENT MEDIA COVERAGE:

- October 4, 2016- There is extensive coverage (Toronto Sun, Ottawa Sun, Toronto Star, Globe and Mail, QP Briefing, Canadian Press, Waterloo Record and the London Free Press) of the release of the consolidated financial statements and **Minister Sandals** is mentioned throughout the coverage. The tone is generally negative and the Toronto Star, Globe and Mail and Canadian Press pieces are more neutral and balanced.

Prepared by: Bharat Patel, Manager (A) External Reporting
Date Prepared: October 3, 2016

Approved by:	**Name:**	**Date Approved**:
Director	Nadine Petsche	October 3, 2016
ADM	Cindy Veinot	October 3, 2016
Communications Branch	Emilie Smith Ann Doose	October 4, 2016

Appendix

Preparation and Tabling of the Public Accounts:

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

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

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

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

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

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

From:	Laughton, Patrick (TBS)
To:	Jason Wesley (MGS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Matthew Sylvain (MOF); David Morris (MAG); Smith, Emilie (TBS); Doose, Ann (TBS); Mercedes Sawosch (CAB)
Subject:	RE: SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 5:57:21 PM

Thanks – a few more we were asked to do which I have added to the list.

Some of these are finished now and Mercedes sending in a moment.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:55 PM
To: Ize-Dukuze, Marilyn (MOF); Laughton, Patrick (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
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2. Use of Legislated Accounting Standards
3. Financial Instruments Standard
4. Rate Regulated Accounting
5. Implementation of Liability for Contaminated Sites
6. Potential Changes to the Standard Audit Report
7. Public Sector Accounting Board Initiatives
8. Legislated Accounting Standards
9. FSD&A Enhancements
10. 2015-16 Annual Report and Unaudited Consolidated Financial Statements

(I already sent PRRT and retirement benefits)

J

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Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
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BudSec is including the 2 CINS Jason just shared.

What are the other outstanding CINS? The names at least, so we can add to the TOC?

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Laughton, Patrick (TBS)
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Subject: SCOPA Materials | Final Binders
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marilyn.ize-dukuze@ontario.ca

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Date:	Tuesday, October 04, 2016 5:55:31 PM

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Subject:	RE: SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 5:01:05 PM
Attachments:	SCOPA 2016 Friendly QAs_v3 100416 130 pm-FINAL for MOF.docx General SCOPA QAs-Oct 4-2016.docx SCOPA - TBS DM Opening Remarks Oct 4-2016-clean.docx PA 2015-16 SCOPA QAs-Oct 4-2016.docx Public Service Non-Pension Retirement Benefits-Sept 30-2016.docx Program Review Renewal and Transformation-Sept 30-2016.docx

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Friendly Questions (MOF)

1. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 39.4 per cent. This improvement is a direct result of better than forecast deficits.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last seven years. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

2. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 27 per cent lower, at 8.5 cents of interest costs for every dollar of revenue. This ratio is the lowest it has been in 25 fiscal years or since 1990-91, and is forecast to remain low through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the

weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3 years as of September 30.

3. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, 2015-16 is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

4. Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue.

This ratio is the lowest it has been since 1990-91, and is forecast to remain low through the outlook period in 2018–19.

5. Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

Friendly Questions (TBS)

6. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. Ontario has consistently scored top marks in the C.D. Howe Institute's evaluation of senior government financial reporting transparency and fiscal accountability. For the past several years, Ontario has earned an "A" on overall measures. The Institute's latest report included some new measures, which caused Ontario's rank to fall to "A-." The results differ from those in previous iterations of the report because of modifications in the Institute's grading system as well as changes in the financial reports themselves.

The Institute noted that Ontario's presentation of its consolidated financial statements was a key strength when compared to other jurisdictions. Further, the Institute ranked Ontario first overall regarding the accuracy of its budgeted spending forecasts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. How does the Financial Statement Discussion and Analysis meet the best practices recommended by Public Sector Accounting Board?

A.: In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.* The two pieces of legislation work together to ensure a principled financial management framework for Ontario.

In addition, the government has taken steps to enhance transparency and accountability and to make the information more accessible and understandable for the average person. We've used data visualization in the past, and this year we are supplementing the information with more online tools and graphics. This means the average person is better able to understand the trends in balance sheet and operating activities in the last five years. It also means a person can more search through the data more easily.

We've also made improvements after a recommendation by the Auditor General about the Financial Statement Discussion and Analysis section of the government's Annual Report.

We've changed the format and layout of this section to ensure it's presenting the province's key financial facts in a non-partisan manner.

Expanding beyond the Auditor General's recommendations, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

8. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs
- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

9. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18.

By continuing to beat our fiscal targets, and through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

10. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

11. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

12. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

Friendly Questions (WSIB)

13. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might

have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where the province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Following the 2009 report of the Auditor General, the government took steps to amend the *WSIA* to confirm the independence of the WSIB and reinforce its Trust status.

14. What progress has the WSIB made on its target to be fully funded by 2027?

A. Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. Our Sufficiency Ratio is forecasted to reach 85% by the end of the year, compared with 54.2% (funding ratio) in 2009.

The UFL is being reduced ahead of schedule - from a peak of $14.2 billion in 2011, the UFL has now been brought down to $5.6 billion (sufficiency basis) in 2016 (Q2).

We have updated our funding trajectory as part of our 2016 economic statement and we expect to reach 100% sufficiency by 2021, six years ahead of the legislated requirement.

Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

Increased premium revenue from employers that was collected specifically to decrease the UFL.

Higher investment returns than long-term targets.

Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.

Improved recovery and return-to-work results – achieved through the WSIB's health care and return-to-work initiatives, along with more efficiency in the claims management process.

15. Can you please give us an update on the status of the WSIB review of its long term financial viability?

A. Long-term viability is about getting to a funding level which will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability for employers.

In order to moderate the risk of any future UFL in the event of economic shocks, the WSIB plans to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding. This target was determined by examining the Office of the Superintendent of Financial Institutions (OSFI) guidelines and funding levels maintained by other workplace compensation boards.

The WSIB's current estimated trajectory shows us reaching full funding (115%) by 2025 while offering premium rate reductions of 5% in each of 2017, 2018 and 2019. Projections also include potential rate reductions of 15-20% between 2023 and 2027.

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive Post Traumatic Stress Disorder (PTSD) legislation, indexation of partial benefits), invest in our systems to improve service, and lower premium rates.

2014-15 Public Accounts
General Questions & Answers

Qs & As

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HYDRO ONE SALE

Q1. How are you managing the value of government assets?

A1. With the *2014 Budget*, the government began unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

In the Ontario Economic Outlook and Fiscal Review in the fall of 2014, the Province shared the council's initial findings, which it supported. The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The government's actions are unlocking the value of key government assets to generate better returns and revenues for Ontarians. The benefits include helping to expand the economy, boost productivity, improve competitiveness and create jobs for Ontarians.

Q2. Does Ontario have a structural deficit, and are you only able to balance the books by selling off Ontario's assets lock, stock and barrel?

A2. Ontario does not have a structural deficit. Much of the government's expenditures are discretionary. The government's plan for asset optimization is to dedicate any net proceeds, dollar for dollar, from designated asset sales to the Trillium Trust to ensure this money is not funding operational spending at the detriment of our public infrastructure. Over the life of the plan, the government will spend the Trust on new roads, highways, transit and other infrastructure as part of its Moving Ontario Forward plan. This builds on the over $100 billion in infrastructure investments made by the Province since 2003, which have supported an average of 100,000 jobs each year and maintains the government's commitment in maintain the Province's public infrastructure.

BARGAINING AND COMPENSATION

Q3. How are you managing the costs of public sector compensation?

A3. Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Between July 2012 and September 2016, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent) and
- Ontario's private sector (1.9 per cent).

The government has also taken steps to ensure executives at BPS organizations, which include hospitals, school boards, colleges and universities, receive fair but reasonable compensation. The new *Broader Public Sector Executive Compensation Act, 2014*, allows the Province to set sector-specific compensation frameworks. These frameworks will consider all aspects of compensation, including benefits and hard caps on salaries, and will reflect consultation and extensive research.

With significant compliance and enforcement measures, these new frameworks will help achieve better value for money while ensuring BPS organizations can attract and retain talented individuals.

Q4. The government was working in a net-zero bargaining environment but then why was there increases in public sector compensation, such as Teachers, AMAPCEO, Hydro? Is that why the government is now backing away from net-zero?

A4. The government has been clear, in multiple fiscal plans, including in the 2014, 2015 and 2016 Budgets, that compensation costs must be addressed within Ontario's existing fiscal framework. Recent agreements reached with Teachers, AMAPCEO and Hydro One unions are examples of the net zero approach to managing compensation, where modest wage increases were offset through a variety of trade-offs.

Q5. This was the sixth year in a row that you have reported a deficit lower than forecast. It's obvious you are overestimating the deficits. Will you balance the Budget before 2017-18?

A5. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government projected a deficit of $8.5 billion in 2015-16 and reported a deficit of $5.0B, $3.5B ahead of target despite taking a large valuation allowance on pension plan assets of $1.5B. We are confident that our projections of $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18 can be achieved.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

Q6. Does the fact that your deficit was $2.2 billion lower than projected mean you had more money to bring to the table in labour negotiations?

A6. Ontario's $10.3 billion deficit is in line with the $10.9 billion deficit projected in the 2015 Budget so fiscal projections have not fundamentally changed.

It is also important to point out that through the Public Accounts process, the government is reporting on past performance whereas labour negotiations impact future fiscal pressures.

The government is committed to balancing the budget by 2017-18. While there are difficult choices ahead, the government will continue to take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Moving forward, the government is committed to working with public sector bargaining agents in negotiating collective agreements in a manner that considers all relevant factors, including recent macroeconomic and labour market trends.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

TRILLIUM TRUST

Q7. Have the net proceeds from the sale of the GM holdings been dedicated to the Trillium Trust, and how was that being reported in Public Accounts?

A7. The $1.1 billion gain from the sale of the Province's common and preferred GM shares has been dedicated to the Trillium Trust to invest in Moving Ontario Forward. In addition, the Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million GM shares. As a result, the Trillium Trust now has $1.35 billion available for investment in roads, highways, transit and other infrastructure throughout Ontario.

In September 2016, amounts related to disposition of Hydro One Shares of $3.2B have been credited to the Trust bringing the balance to $4.5B available for the investment in public infrastructure.

The revenues allocated to the Trillium Trust are reported as a schedule to Volume 1 in the 2014-15 Public Accounts. The transactions are also disclosed in the Ministry of Finance statements located in Volume 1 of the Public Accounts.

Q8. How did you spend the $1.35 billion dedicated to the Trillium Trust?

A8. The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

INFRASTRUCTURE – MOVING ONTARIO FORWARD

Q9. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.2 billion difference?

A9. Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

Q10. How much did the government spend on Moving Ontario Forward in 2014-15?

A10. Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including initial spending focused on planning, design, property acquisition and other activities to get projects construction-ready but no infrastructure spending has been applied against the Trillium Trust to date. Initial investments include the first intake of the Ontario Community Infrastructure Fund, funding for the Ontario Northland Transportation Commission and investments in provincial highways. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q11. Why weren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

A11. In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

Q12. How does investing in public infrastructure impact the economy?

A12. A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

ONTARIO'S FINANCIAL POSITION

Q13. Is the government on track to balance the budget by 2017-18?
A13. The government remains firmly committed to balancing the budget by 2017-18 in a way that is both fiscally responsible and fair.

The plan to balance set out in the 2015 Budget projected a deficit of $8.5 billion for 2015-16, followed by a $4.8 billion deficit in 2016-17 and a return to balance the following year.

The government will balance the budget through:

- Program Review, Renewal and Transformation;
- continuing to manage compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability

The Province's plan to balance the budget builds on past success: in each fiscal year between 2010-11 and 2014-15, the government beat its annual deficit target.

The government plans to balance the budget while continuing to make the investments that create jobs, expand opportunities and enhance prosperity for all Ontarians, which were outlined in the most recent budget.

That includes investing in people's talents and skills, building new public infrastructure like roads and transit, creating a dynamic, innovative environment where business thrives, and building a secure retirement savings plan.

Q14. Did you use your reserve to pad your fiscal results?

A14. For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance. The 2014 Budget plan included a $1.0 billion reserve. The reserve does not affect the actual deficit result of $10.3 billion and is only a budgeted amount for variability in results.

Q15. Ontario is still expected to be the last Canadian jurisdiction to return to balance. What are we doing wrong?

A15. Ontario has the lowest per-capita program spending among provinces. Ontario also has the lowest total government revenue per person among all Canadian provinces, including funding from federal transfers.

The government remains firmly committed to balancing the budget by 2017–18.
The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared with the 2014 Budget forecast. This marks the sixth year in a row Ontario has beaten its annual deficit target making the province one of the few governments in Canada to achieve this level of success.

As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic

and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q16. Standard & Poor's downgraded the Province's credit rating from double-A-negative to A-plus because of a combination of "very high debt burden" and "very weak budgetary performance". What is the government doing to manage the debt?

A16. The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared to the 2014 Budget. This marks the sixth year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management. As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q17. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

A17. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation;
- managing compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability.

Q18. How much did government spend in 2014-15?

A18. Total spending for 2014-15 was $128.8 billion, against a planned $130.4 billion. This reflected savings across ministries and their agencies, as well as a lower-than-projected interest expense.

Over the past four years the Province has held average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while continuing to invest in priorities like infrastructure and services like health care and education.

Q19. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

A19. The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2015–16, and has been set at $1.2 billion in each of 2016–17 and 2017–18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

BUDGET SURPLUS and REVENUE INCREASE

Q20. Can you explain the $29 million increase in revenue since your 2015 Budget?

A20. The modest $29 million improvement in revenues is largely due to higher net income of government enterprises like the OPG as well as revenues from other non-tax revenues such as sales, rentals and royalties

These higher revenues were largely offset by lower Taxation Revenues and Federal Payments.

Q21. How did net income from government business enterprises increase by $589 million from your 2014 Budget projection?

A21. This increase was mostly due to OPG's lower operating costs and better market performance of its nuclear funds.

CONTINGECY FUND / RESERVE

Q22. What is the difference between the contingency fund and the reserve?

A22. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events or program pressures (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance.

BUDGET PROJECTIONS vs PUBLIC ACCOUNTS REPORTING

Q23. What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A23. Taxation revenues were $1.1 billion lower due largely to lower corporations' tax revenue ($0.7 billion) and lower sales tax revenue (-$0.2 billion).

Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.

Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

Q24. Why did Ontario's net debt increase by $17.4 billion in 2014-15?

A24. Net debt is the province's total debt and other liabilities, minus its financial assets, including cash and investments. The increase in net debt is primarily due to the deficit, and significant investments in infrastructure. Ontario's net debt-to-GDP is levelling off and the government continues to maintain a target of reducing the ratio to its pre-recession level of 27 per cent. Upon achieving balance in 2017-18, increases in net debt will be limited to borrowing for investments in capital infrastructure.

Q25. How do you explain the $19.2 billion increase in total debt in 2014-15?

A25. The increase in total debt is primarily due to the deficit and significant investments in infrastructure in 2014-15.

Background: Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets, such as Ontario's cash reserves and investments, loans receivables, and investments in Government Business Enterprises (e.g. LCBO, OLGC). Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q26. Why was the interest on debt for 2014-15 $375 million lower than forecast in the 2014 Budget?

A26. Interest on debt is lower primarily because of:

- lower than forecast interest rates
- cost-effective debt management
- a one-time gain from the sale of asset-backed commercial paper that was written down in prior fiscal years.

Q27. Why was interest on debt for 2014-15 $63 million higher than in 2013-14?

A27. The Province pays interest on its total debt. Total debt increased in 2014-15 by $19.2 billion as a result of the deficit and investments in infrastructure causing interest on debt to also increase by $63 million when compared to the previous fiscal year.

Q28. You spent $1.6 billion less than you budgeted for programs. With all the problems facing the Province, aren't you just denying badly needed services to Ontarians?

A28. Ontario's path to a balanced budget is focused on improving the quality of life of all Ontarians. As always, the government must manage its limited resources in a way that is efficient and effective. This means doing some things differently. For example, since launching Ontario's Action Plan for Health Care in January 2012, the government has moved forward in transforming health care in the province from a fragmented system with rising costs, to a system focused on better access, quality and value for all Ontarians. The government has reduced growth in health care spending to about two per cent annually from about six to seven per cent per year, significantly bending the health care cost curve while continuing to improve.

An efficient and effective health care system must be forward looking and anticipate rather than react —based on evidence —so that health care interventions are smart, targeted and effective. Putting the needs of people and patients first will help improve patient outcomes and make the best use of every dollar spent.

Managing growth in spending underpins the government's commitment to achieving a balanced budget by 2017-18. Achieving balance requires a relentless focus on finding smarter, better ways to deliver the best possible value for every dollar we spend.
For example, in the education sector, the School Board Efficiencies and Modernization strategy is helping school boards reduce the costs of managing underutilized school space by consolidating schools, sharing space with other boards and fostering community partnerships.

From an across-government perspective, ministries are working together to better deliver services to people. At the same time, the Province is making tough choices to transform or wind down programs that are not performing, do not link to government priorities or no longer clearly serve the public interest.

While the government continues to invest in priority areas and implement its plan to support economic growth and prosperity, it is also committed to managing program expense growth over the medium term to support a balanced and thoughtful approach to eliminating the deficit.

PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Q29. How are you reviewing and transforming government programs?

A29. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

PRRT is focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs. [2016 Budget, p. 181].

Q30. Has PRRT achieved any tangible results/savings?

A30. The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services;
- Finding internal efficiencies in information technology data centre, desktop and service management operations;
- Modernizing the delivery of natural resources management programs;
- Restraining compensation growth in line with the government's "net zero" policy;
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits;
- Modernizing programs delivered through ServiceOntario;
- Reducing the government's office footprint;
- Getting better value for money invested in health care programs and services.

Examples of Successful Transformation Initiatives [from the 2015 Budget, p. 204]

The government has a strong track record of successfully transforming public services by improving outcomes and managing costs. Examples include:

- Moving from a provider-based to a patient-based health care funding model, which includes updating and rebalancing some OHIP fees to reflect advances in technology and applying the best medical evidence on patient outcomes. Government reform of the Provincial drug program has resulted in savings of $500 million per year.
- Transforming the youth justice system by diverting lower-risk youth in conflict with the law to community-based programs. Expanding rehabilitation programs for approximately 11,000 youth per year has both reduced the risk of reoffending and allowed the government to shut down or repurpose many youth detention centres. Key achievements between 2003 and 2013 include a drop in the number of youth in secure custody from over 1,000 to fewer than 400, and a 43 per cent decrease in the youth crime rate.
- Working with municipalities to allow for localized administration of programs for the homeless so that programs respond better to the needs of the families and individuals involved. This is being done through the Community Homelessness Prevention Initiative, which combines funding from five formerly separate housing and homelessness programs into a single, flexible and locally coordinated program. For further information, see Chapter I, Section F: *A Fair Society*.

In addition, the government is moving forward with opportunities that improve efficiency, reduce overlap across government programs, and ensure that government works better for Ontarians, including:

- Reducing the costs associated with managing under-utilized school space by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.
- Better targeting funding through business support programs, such as the Ontario Interactive Digital Media Tax Credit. Changes proposed in the 2015 Budget include realigning funding from an open-ended tax credit to a grant program, which will improve effectiveness.

Q31. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

A31. The government is committed to protecting the public services that matter the most to Ontarians. This is why it is not making across the board cuts. Instead, the government is using PRRT to balance the budget by carefully and thoughtfully examining how every government dollar is spent while taking outcomes into account.

Q32. Why was the 2014-15 program review savings target of $250 million so much smaller than the $1.1 billion year-end savings target?

A32. The 2014 Budget included a year-end savings target of $1.1 billion for 2014-15. As in past years, the year-end saving provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project start-ups and implementation plans.

The 2014 Budget also included a program review savings target of $250 million in 2014-15. The target was established with a focus on maintaining or enhancing the delivery of public services while reducing costs that are not essential to delivering services.

The $250 million target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

For example, the Ministry of Health and Long Term Care negotiated lower prices for goods and services, achieving savings of approximately $40 million through lower contract costs for vaccines and telehealth services. [See Q.30 for other examples.]

GOVERNMENT ADVERTISING ACT

Q33.What are you doing to ban partisan advertising before an election (Bill 201)?

A33. Although the Government Advertising Act already requires that all government advertising be non-partisan as defined in the Act, it is important to avoid even a perception that the government's advertising might be able to influence an election campaign.

The government brought forward amendments to Bill 201 to extend the time period during which government advertising would be restricted with limited exceptions.

These amendments would, if passed, extend the existing restrictions on government advertising in the Government Advertising Act for a period of 60 days prior to the drop of the writ for a scheduled general election.

Governments have ongoing obligations to communicate with citizens on a range of issues including public health warnings, emergency preparedness, access to identification documents (i.e., health cards, birth certificates, etc.) and public education on civic responsibilities (i.e., submitting taxes, etc.)

If asked about proposed changes to the Election Finances Act:

The Ontario government has also committed to enhance the fairness and integrity of the election system as part of its plan to build a fairer and more inclusive Ontario.

Proposed amendments to the Election Finances Act were introduced by Minister Naqvi, the Government House Leader, on May 17, 2016. Bill 201 was considered in committee and has been reported to the Legislature for Second Reading.

The government's goal is to have reforms in place by January 1, 2017.

Flagship elements include:

- Banning union and corporate donations;
- Reducing individual contribution limits;
- Regulation of pre-writ advertising spending by third parties and political parties; and,
- Spending limits on third-party advertising during election campaigns.

Further questions should be directed to the Government House Leader.

Q 34. The Auditor General has said the Government Advertising Act is not living up to its intended purpose. How do you respond?

A 34. Ontario is still the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

As part of the 2015 Budget, the government modernized the *Government Advertising Act* and broadened the Auditor General's mandate to cover digital advertising as well as transit ads and movie theatre ads.

The Office of the Auditor General continues to have oversight of government advertising, to ensure that an independent third party confirms that the standards of the Act have been met.

Standing Committee on Public Accounts

Review of Auditor General's 2015 Annual Report, Chapter 2

October 5, 2016

Deputy Minister Orencsak Opening Remarks

Good afternoon Chair and fellow members of the Public Accounts Committee.

On behalf of myself and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on Chapter 2 of the Auditor General's 2015 Annual Report.

This includes discussion on the province's debt as well as a discussion of the Province's 2014-15 Annual Report and the accompanying Financial Statement Discussion and Analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As members of the Committee will know, we also had the pleasure of joining this Committee last year to discuss Chapter 2 of the Auditor General's 2014 Annual Report.

We look forward to having these discussions with this Committee and to maintaining the positive and collaborative relationship with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in Chapter 2 of her Annual Report last year. During our presentation we will

update the Committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard-setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public-sector entities.

We all agree on the importance of producing high-quality financial reports, which serve the transparency and accountability needs of the public and the legislature.

When we appeared before the Committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 Annual Report.

Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Thomas Teahan, President and CEO of the Workplace Safety and Insurance Board, who you have invited to appear before the Committee today.

Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahan would be pleased to update you on the board's progress in meeting its sufficiency ratio which has been an interest of the Auditor General over the past several years.

DRAFT

As I noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results, but also in relation to the government's fiscal planning process.

Since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting, and what the primary users of this information expect from their governments.

I am sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which the Public Sector Accounting Board's accounting standards are set.

In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.*

These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the *Fiscal Transparency and Accountability Act* in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

DRAFT

At last year's hearing we reported that Ontario had received an 'A' from a 2015 C.D. Howe report, ranking it among the best in the overall quality of its reporting of financial results.

This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of release, our ranking has fallen to an "A-". In other words, it remains very good.

In line with C.D. Howe's position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB's standard for Liability for Contaminated Sites, noted in the Auditor General's Report as a challenge that was successfully navigated.

Staff at the Treasury Board Secretariat have taken steps to enhance the transparency and accountability in the report, and to make the information contained in it more accessible and understandable for the average person.

DRAFT

Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average person to better understand the trends in balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the Financial Statement Discussion and Analysis section of the government's Annual Report.

Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a non-partisan manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB's Statements of Recommended Practice, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

Ontario's Annual Report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management, and transparency and accountability in public reporting.

As Deputy Minister of Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen the accountability and transparency of the Public Accounts.

DRAFT

In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high quality public sector reporting for the people of Ontario.

At this point I would like to turn things over to Deputy Thompson to discuss debt management and financial accounting in greater detail.

(turn over to MOF)

DRAFT

2015-16 Public Accounts
General Questions & Answers

Qs & As

(Follow the hyperlinks to questions on each topic)

2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2

KEY MESSAGES.....2

TOP QUESTIONS 3

2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

KEY MESSAGES

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However the government remains optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

TOP QUESTIONS

Q1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

A1. This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

The government believes that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The government will ensure that the task force is made aware of this area of difference in interpretation.

In addition, the government will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The government will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q2. Why did the government release its financial statements without the Auditor approving them?

A2. This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference interpretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government released its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

A3. No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A4. A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the government has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

Q5. Is the Auditor General misinterpreting Public Sector Accounting Board standards?

A5. The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months the government will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

A6. According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

A7. The government only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q8. If the government things its right, why would the government change the numbers?

A8. To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized.

Q9. Was there something wrong with the accounting rules that the government was using before?

A9. No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

Q10. Why hasn't the Auditor General raised this with you in the past two years?

A10. I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

Q11. So what happens next? When will you table the actual Public Accounts?

A11. The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

A12. Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

PUBLIC SERVICE NON-PENSION RETIREMENT BENEFITS

HOW DO THE UPCOMING CHANGES TO THE POST-RETIREMENT BENEFITS AFFECT ONTARIO PUBLIC SERVICE EMPLOYEES?

SUGGESTED RESPONSE:

- Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.
- On February 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.
- PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of January 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.
- Also, eligible persons who have not commenced receiving a pension before January 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.
- Employees who commenced receiving a pension before January 1, 2017 will not be affected by these changes.

- Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.
- Some other public sector workers pay 100% of their benefits premiums.
- Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.
- Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

CURRENT STATUS

Recent OPSEU Concerns with Changes to Post Retirement Benefits:

- On June 1, 2016 OPSEU submitted a formal letter responding to the government's announced changes to Post Retirement Benefits, claiming that the changes were unfair to OPSEU members and adversely impact the government's finances in unintended ways.
- The OPSEU letter recommends that further negotiations on the policy and alternative cost-saving measures be held and that the decision to implement a 50:50 premium cost-sharing be delayed until Jan. 1, 2018.
- On June 16, 2016, OPSEU submitted a second letter articulating interest and intent to jointly discuss the development of a viable alternative Post Retirement Benefits option.

BACKGROUND:

GENERAL INFORMATION ABOUT OPS PENSION PLANS:

- The OPS participates in two pension plans:
    - The Public Service Pension Plan, for which the government is the sole sponsor; and,
    - The OPSEU Pension Plan, which the government co-sponsors with the Ontario Public Service Employees Union.
- OPS pension plan members pay 50% of the contributions required by their pension plans, on average between 7% and 10% of their annual salaries.
- Both plans provide defined benefits, so retirees are provided with a monthly pension based on a fixed formula, in contrast to a defined contribution type of pension, which is more like an RRSP.
- Pensions are part of the total compensation for public servants.

Prepared By: Jane Bigley
Date Prepared: September 9, 2016
Date Updated:

PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Question: What is Program Review, Renewal and Transformation (PRRT) and how is it helping to manage government expenses and improve outcomes for Ontarians?

SUGGESTED RESPONSE

- Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.
- The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.
- Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.
- To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.
- This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs.

- 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.
- But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

CURRENT STATUS

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education. The following table (page 182 in the 2016 Budget) identifies major transformation and efficiency initiatives currently under review.

TABLE 2.1 Major Transformation and Efficiency Initiatives, 2016–17 to 2018–19
($ Millions)[1]

Initiatives		Expected Outcomes
Government Modernization		
Digital Action Plan		Transforming government service design and delivery, including creating Ontario's first-ever digital service to drive change across government.
Modernizing Information & Information Technology (IT)		High-performing IT solutions that provide greater value for money, lower delivery risks and enable effective transformation of public services.
Transfer Payment Administration Modernization		An easier process for recipient organizations to work with government so they can focus on their core business, and enabling government to maximize outcomes by allocating resources based on evidence.
ServiceOntario Modernization		Improved digital service design and delivery for a better and more convenient service experience.
Annual Fiscal Impact, Subtotal	15–130	
Sector Transformation		
Managing Health Care Spending and Growth		Improved patient experience and more equitable access to better integrated health services. Progress towards a redesigned public drug program that will be sustainable over the long term, simpler and easier to use, with a vision of increased fairness and equity among beneficiaries.
Benefits Transformation		Shifting from a program-by-program to a citizen-focused approach to benefits delivery will make it easier for people to access income-based benefits, while ensuring programs are administered efficiently.
Justice Sector Transformation		A more modern justice system that is client-centred, community-based and focused on prevention.
Annual Fiscal Impact, Subtotal	155–705	
Program Effectiveness and Sustainability		
More Effective Business Supports		Business support programs that more effectively support economic growth, innovation and expanding exports.
Simpler, Better-Targeted Postsecondary Student Financial Assistance[2]		Reduced complexity and more timely and better-targeted student financial aid to those who need it most.
Service Fees and Non-Tax Revenue[3]		A consistent, well-managed fee system that balances end-user needs with the objective of sustaining public services.
Tax Expenditures		Ending tax credits that have low take-up or do not effectively achieve desired outcomes and overlap with support provided through other provincial programs.
Annual Fiscal Impact, Subtotal	375–690	
Subtotal	545–1,525	
Annual Year-End Savings Target	800–1,000	As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project start-ups and implementation plans.
Total	1,345–2,525	

[1] Annual impact. Fiscal impact increases over time as initiatives mature. Savings estimates will be refined through implementation.
[2] Fiscal impact is generated through eliminating tax credits.
[3] Fiscal impact is generated through additional revenue.
Note: Numbers may not add due to rounding.

BUDGET 2016 CONTENT:

- "Strong Fiscal Management on the Path to Balance (Budget Papers, forward)
- We are on track to balance the budget in 2017–18. While we continue to invest in the key public services relied on by families, Ontario provides value for tax dollars spent by focusing on outcomes through Program Review, Renewal and Transformation — and by retaining the lowest per capita program spending in Canada. This has helped us beat our fiscal targets and we are on track to do this for the seventh year in a row. For 2015–16, the deficit is forecast to be $5.7 billion, which is $2.8 billion lower than projected in the 2015 Budget. The government is projecting a deficit of $4.3 billion in 2016–17, and balanced budgets in 2017–18 and 2018–19. A key indication of fiscal sustainability is the Province's management of its debt. Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18."

PAGE 177 -- Program Review, Renewal and Transformation

- Launched in 2014, Program Review, Renewal and Transformation (PRRT) introduced a new approach to planning and budgeting. Led by the President of the Treasury Board/Deputy Premier and supported by a sub-committee of Treasury Board/Management Board of Cabinet, PRRT is both the government's ongoing fiscal planning and expenditure management approach and a continuous review of programs, including public services and internal administration. It is designed around four key principles:
    - Examining how every government dollar is spent;
    - Using evidence to inform better choices and improve outcomes;
    - Looking across government to find the best way to deliver services; and
    - Taking a multi-year approach to find opportunities to transform programs and achieve savings.
- Program Review, Renewal and Transformation is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.
- An important success factor of PRRT is increasing the government's capacity for evidence-based decision-making. At its core, this is about identifying the outcomes government wants to achieve, ensuring the best available evidence and analysis informs the government's decisions, and tracking the performance of public services to make sure Ontarians get the best results and value for money.
- The Province is building this capacity in a number of ways. The new Centre of Excellence for Evidence-Based Decision-Making, launched in the 2015 Budget, is setting standards for the use of evidence and tracking of performance across

government, and equipping public service staff with the necessary tools and training. Through PRRT, key performance indicators are being identified for major programs, and performance measurement data will be monitored to track whether the government is achieving success on its priorities — and where more work is needed.

What Does Success Look Like?

- The government is already using key performance indicators to report on priorities, such as the Poverty Reduction Strategy, to track progress and demonstrate the impact of public investments. Education is key to breaking the cycle of poverty — high school graduation has increased from 68 per cent in 2004 to 84 per cent in 2014. Ongoing monitoring of key indicators is helping to better understand which investments are working and where additional efforts are needed to target the root causes of poverty.
- By identifying desired outcomes, and tracking progress towards these outcomes, the government and Ontarians can better assess whether a program has worked as it should, was effective, and investments were worthwhile and efficient.
- The government will leverage its relationships with experts across Ontario to build an external network that supports evidence-based policy making. This will include academic research and other types of organizations that can guide efforts to improve decision-making. It will also include the new academic Centre for Evidence in Health in All Policies and a new Institute for Fiscal Studies and Democracy Canada affiliated with the University of Ottawa.
- The Behavioural Insights Unit (BIU) is helping ministries apply insights from the behavioural sciences to design and implement policies and programs that are more effective, efficient and human-centric, in alignment with PRRT goals. Building on recent successes, in 2016 the BIU will focus on supporting initiatives that:
    - Optimize digital services;
    - Advance the goals of the Poverty Reduction Strategy;
    - Improve the health and well-being of Ontarians; and
    - Promote regulatory approaches that are less burdensome to businesses.”

PAGE 179 -- Progress through Program Review, Renewal and Transformation

- Program Review, Renewal and Transformation is helping the government achieve better outcomes while also lowering costs. The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians’ needs.

PAGE 180 – Examples of Savings/Efficiencies (Initiatives Identified towards $500M Program Review Savings Target)

- Negotiating lower prices for goods and services, achieving savings of approximately $7 million from contracts related to government cellular phone plans and toll-free lines.

- Achieving approximately $56 million in savings, through the consolidation of data centres, early vendor payments and lower contract costs, including for software and IT consulting services, laboratory supplies and security services.
- Ensuring the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by continuing to make the program more efficient and effective.
- The changes enable the government to achieve savings of $106 million in 2015–16 and will enable over $200 million in savings annually when fully implemented, including optimizing the quantities of medication dispensed, adjusting some dispensing payments and practices, and maximizing the use of generic drugs.
- Making 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.
- Reducing employee benefits costs by approximately $207 million.
- Reducing the government's office footprint. As of January 2016, the government had reduced its office footprint by approximately 820,000 rentable square feet. That is over 60 per cent of the Province's target, with estimated savings of $24 million in 2015–16.
- Achieving approximately $30 million in savings by leveraging and reusing existing assets and other one-time savings opportunities.
- Effective contract management and operational efficiencies in business support programs, resulting in approximately $22 million in savings. Future savings may be realized through an ongoing review of business support programs.
- Modernizing the delivery of programs in the Ministry of Natural Resources and Forestry, and the Ministry of Northern Development and Mines, saving $19 million."

PAGE 181 -- Moving Forward with Program Review, Renewal and Transformation

- Program Review, Renewal and Transformation will remain focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.
- This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs.
- Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education."

PAGE 188 – More Effective Business Supports

- The government is undertaking an ongoing review of business support programs through PRRT, building on the recommendations of both the Commission on the Reform of Ontario's Public Services and the Ontario Auditor General, including an enhanced focus on measuring program performance, increasing transparency about how funding decisions are made, and improving coordination across the government's business support programs. For example, moving forward, the Eastern Ontario Development Fund, the Southwestern Ontario Development Fund and the Rural Economic Development Program will be better integrated with the Jobs and Prosperity Fund to help improve the coordination of regional support programs.
- The review has assessed programs for effectiveness, efficiency, relevance, sustainability and alignment with the objectives of the Business Growth Initiative announced in the 2015 Ontario Economic Outlook and Fiscal Review, with the goal of promoting a highly productive, innovation-based and export-focused economy.
- Based on these assessments, opportunities are being acted on to reduce spending in programs that are lower-performing or less aligned with government priorities.
- Spending reductions will be reinvested in priority economic development opportunities, including the Business Growth Initiative outlined in Chapter I, Section A: Fostering a More Innovative and Dynamic Business Environment.
- The Province remains committed to delivering effective and targeted financial support through programs such as the Jobs and Prosperity Fund, marketing services, and collaboration with domestic and international partners. It also continues to foster the stability and development of Indigenous, rural and northern communities across the province."

PAGE 192 -- Improving Outcomes and Evidence-Based Decision-Making

- To improve programs, Ontario is moving towards a focus on evidence-based decision-making — gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.
- Examples include:
    - The government plans to continue to fund growth in community-based care of about five per cent per year to 2017–18, so patients receive care at or close to home and to avoid unnecessary and costlier stays in the hospital. In recent years, hospitals have introduced evidence-based funding that has supported shorter patient stays and more outpatient care, while maintaining excellent patient outcomes.
    - Over the next three years, the government plans to invest an additional $75 million in community-based, residential hospice and palliative care, for

a total investment of about $155 million over three years. This will bring the government's commitment to residential hospices to almost $55 million annually at maturity. This investment, while supporting the government's commitment for greater choice and access with respect to palliative and end-of-life care, funds a more cost-effective alternative than new hospital palliative-care beds."

- Government programs are being examined through four lenses:
    - The relevance of the program in realizing government priorities;
    - The program's effectiveness in achieving desired outcomes;
    - The efficiency in converting resources into results; and
    - The sustainability of the current program over the long term.
- Building on action already underway, including the work of the Commission on the Reform of Ontario's Public Services, the PRRT process has already identified a number of major initiatives to transform programs, modernize government and deliver savings towards the annual program review savings target – but it has only just begun.
- PRRT is a continuous planning approach and a collective multi-year initiative and will be considering complex, cross-government opportunities that aim to modernize public services, support fiscal objectives and improve outcomes for people.

BACKGROUND

Financial Accountability Office (FAO) Planned Report on Program Review, Renewal and Transformation (PRRT):

- In a November 2015 report on the province's fiscal outlook, the Financial Accountability Office (FAO) highlighted program spending targets as a particular area of concern, noting the government was sharply increasing its savings targets and planned to keep spending growth well below the pace of population growth and inflation.
    - The FAO report concluded: "There are significant risks to the achievement of these targets."
- In mid-November 2015, the Financial Accountability Officer, Stephen LeClair, advised the Deputy Ministers of Treasury Board Secretariat and Ministry of Finance that his office will be undertaking analysis focused on "Estimating the Fiscal Impact of the Program Review, Renewal and Transformation initiative", and requested information from both ministries deemed necessary to perform his duties pursuant to subsection 12(1) of the Financial Accountability Act, 2013.
- Since December 2015, Treasury Board Secretariat and Ministry of Finance staff have continued to work with the FAO's office to respond to their requested information to support their analysis and final report.

- In July 2016, TBS provided comments on the FAO draft final report. The final report has not yet been released.

Prepared By: Jane Bigley
Date Prepared: Sept 30, 2016
Date Updated:

From:	Tarin, Ghufran (MOF)
To:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Tomasz Bugajski; Jason Wesley (MGS); Smith, Emilie (TBS); Christina Zhang
Cc:	Matthew Sylvain (MOF)
Subject:	RE: SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 3:42:38 PM
Attachments:	MOF General QAs Oct 4 2pm_v2 OFA edits.docx

Hi Marilyn,

All OEP material is good. I just want to point out that a 2016 Budget cap and trade Q and A seems to have been included at the time as the issue was perhaps more in the headlines. But it is not relevant to 2014-15 Public Accounts so we have the option to drop this Q and A for now.

Please see the highlighted Q&A on page 6 and 7 of the attached file.

Thanks,
Ghufran

From: Ize-Dukuze, Marilyn (MOF)
Sent: October-04-16 2:35 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Wesley, Jason (TBS); Smith, Emilie (TBS); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF)
Subject: SCOPA Materials | Final Binders
Importance: High

Hi all –

List of Materials requiring edits by EOD as per 12pm meeting. I've attached the latest version of each document.

Remarks

- DM Orencsak (10mins)
- DM Thompson (5mins) – please remove references to 2015-16 PA
- Gadi Mayman (3mins) – please remove references to 2015-16 PA
- Tom Teahan (3mins) – **WSIB will share these shortly, I've advised them of the timing.**

Friendly QAs - please remove references to 2015-16 PA

- **TBS Comms to provide edits TBS Questions and answers.**

General QAs (should only about 2014-15 PA, such as version used for Sept 30, 2016 meeting)

- MOF (OFA has already made their edits, folks can continue working from that version)
- TBS (TBS Comms, can you share this once you've separated out the 2015-16 QAs?)

2015-16 PA Q&As Package – should be separate from General QAs on 2014-15 PA

- TBS Comms to provide. I have already sent CEFD and OTB edits for this document.

Let me know if there are any questions via this thread.

Thanks

Marilyn Ize-Dukuze
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Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.
- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.

- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

Formatted: Highlight

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.
- In May, both Quebec and California sold about 11% of the total allowances they each offered.
- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and
- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

~~**Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?**~~

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of ~~August 31~~September 30, 2016, $13.3~~2.5~~ billion or 5~~4~~1 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of ~~August 31~~September 30, 2016, the Province had borrowed $13.3~~2.5~~ billion for the fiscal year. Approximately 69~~71~~ per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables. This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

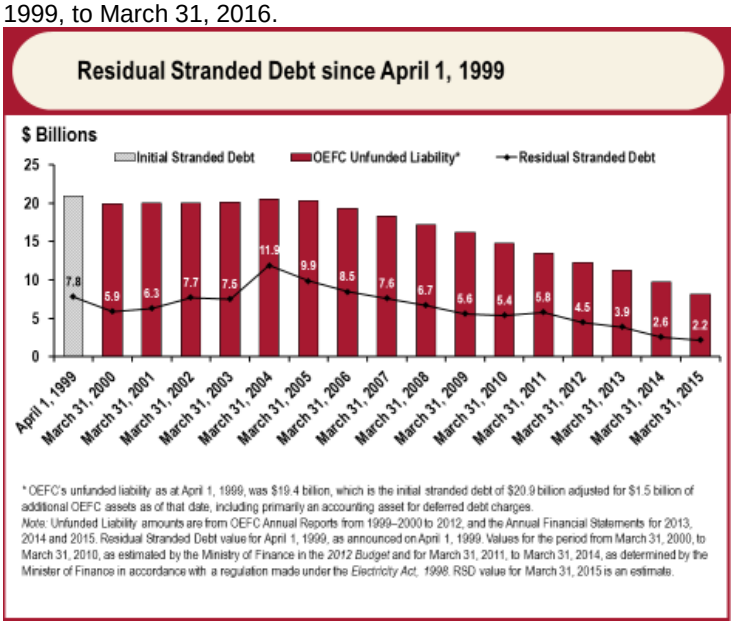
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.
- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.
- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.
- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts
    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.
- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

From:	Sawosch, Mercedes (TBS)
To:	Patrick Laughton (MOF); Jason Wesley (MGS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Matthew Sylvain (MOF); David Morris (MAG); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject:	RE: SCOPA Materials | Final Binders
Date:	Wednesday, October 05, 2016 10:28:51 AM
Attachments:	CINS - Public Sector Accounting Board Initiatives.docx CINS - SCOPA Use of Legislated Accounting Standards 2015_v5.docx CINS - Public Service Non-Pension Retirement Benefits ip.docx CINs - Rate Regulated Accounting.docx

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All remaining CINs

From: Sawosch, Mercedes (TBS)
Sent: October-04-16 5:59 PM
To: Laughton, Patrick (TBS); Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Here's what we have so far.

From: Laughton, Patrick (TBS)
Sent: October-04-16 5:57 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – a few more we were asked to do which I have added to the list.

Some of these are finished now and Mercedes sending in a moment.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:55 PM
To: Ize-Dukuze, Marilyn (MOF); Laughton, Patrick (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hi there,

From my list, the others are:

1. WSIB Unfunded Liability, PBGF, MVACF (accounting)
2. Use of Legislated Accounting Standards
3. Financial Instruments Standard
4. Rate Regulated Accounting
5. Implementation of Liability for Contaminated Sites
6. Potential Changes to the Standard Audit Report
7. Public Sector Accounting Board Initiatives

8. Legislated Accounting Standards
9. FSD&A Enhancements
10. 2015-16 Annual Report and Unaudited Consolidated Financial Statements

(I already sent PRRT and retirement benefits)

J

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:48 PM
To: Laughton, Patrick (TBS); Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

BudSec is including the 2 CINS Jason just shared.

What are the other outstanding CINS? The names at least, so we can add to the TOC?

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Laughton, Patrick (TBS)
Sent: Tuesday, October 4, 2016 5:46 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – my understanding is we are all done on the friendlies, there were some additional CINs that we were developing on the TBS side, I am wondering if there is merit in including them in the TOC and we can insert them in the binders once they are ready. **Mercedes** can confirm but we're expecting these very soon.

P.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:39 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thx M – just FYI – I did incorporate some feedback from OTB on the TBS portion of the friendlies that

I flipped over…

J

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:35 PM
To: Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Bud Sec is printing away. Waiting for final comments from OTB on friendlies and binders will be coming up.

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Wesley, Jason (TBS)
Sent: Tuesday, October 4, 2016 5:01 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hello MOF,

As requested, attached are the TBS products for SCOPA. They are:

- Our input into the consolidated friendly Q document
- Our General QA on TBS related issues that may arise
- The QA for the separate tab on the 15-16 public accounts – this is the supporting messaging to be used as a contingency if the DM's need to go there
- Our DM's speaking notes (Marilyn, when I time them for our DM's style it seems to come in at about 9-10 minutes or so)

Also, if you are still including the CIN's – attached are the two that I have (PRRT and retirement benefits) – Patrick may have more to add. Pls let us know if you plan to include them.

Hope this helps,

Jason

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 2:35 PM

To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Wesley, Jason (TBS); Smith, Emilie (TBS); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF)
Subject: SCOPA Materials | Final Binders
Importance: High

Hi all –

List of Materials requiring edits by EOD as per 12pm meeting. I've attached the latest version of each document.

Remarks

- DM Orencsak (10mins)
- DM Thompson (5mins) – please remove references to 2015-16 PA
- Gadi Mayman (3mins) – please remove references to 2015-16 PA
- Tom Teahan (3mins) – **WSIB will share these shortly, I've advised them of the timing.**

Friendly QAs - please remove references to 2015-16 PA

- **TBS Comms to provide edits TBS Questions and answers.**

General QAs (should only about 2014-15 PA, such as version used for Sept 30, 2016 meeting)

- MOF (OFA has already made their edits, folks can continue working from that version)
- TBS (TBS Comms, can you share this once you've separated out the 2015-16 QAs?)

2015-16 PA Q&As Package – should be separate from General QAs on 2014-15 PA

- TBS Comms to provide. I have already sent CEFD and OTB edits for this document.

Let me know if there are any questions via this thread.

Thanks

Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

PUBLIC SECTOR ACCOUNTING BOARD INITIATIVES

Question: What happens when PSAB changes their standards?

SUGGESTED RESPONSE

- **PSAB continues to develop guidance for financial reporting**
- **The Province must review the changes in context with accountability and transparency objectives to ensure they are being met with the new standard**
- **This is an ongoing process which may impact current thinking related about existing standards and how they are implemented.**
- **Since the Province aligns our budgeting, estimates and reporting with PSAB there are many considerations on how changes to standards may impact the financial management, planning and transparency of reporting government activity.**
- **In particular the new Financial Instruments Standard introduces market value volatility which does not align with the accountability models used by government.**

CURRENT STATUS

This is an ongoing consideration that PSAB standards may not align with the requirements of legislation such as The Financial Administration Act (FAA) and Fiscal Transparency and Accountability Act (FTAA) and internal processes.

BACKGROUND

PSAB 3450 — Financial Instruments and PSAB 2601 — Foreign Currency Translation

PSAB has introduced new sections on Financial Instruments and Foreign Currency Translation that categorize items to be accounted for at either fair value, cost or amortized cost. Fair value measurement applies to derivatives and portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized (for example, through disposition), any gains and losses arising due to changes in fair value (remeasurements) will be reported in the Statement of Remeasurement Gains and Losses. PSAB has agreed to further explore the views of the stakeholders in the areas of hedge accounting and linkage to the Concepts Underlying Financial Performance project. PSAB has extended the effective date of these standards until fiscal year 2019–20.

PSAB 2200 — Related Party Disclosures

PSAB has issued a new standard on Related Party Disclosures. This standard requires disclosure of related party transactions if they have a material financial effect on the Consolidated Financial Statements and only if those transactions occur at a value different from what would have been arrived at if the parties were unrelated. Transactions involving key management personnel and their close family members may be required to be disclosed if they meet certain criteria. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

PSAB 3420 — Inter-Entity Transactions

PSAB has issued a new standard on Inter-Entity Transactions. It establishes standards on how to account for and report transactions between public-sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This standard covers recognition and measurement and references disclosure of information about Inter-Entity Transactions, in accordance with the Related Party Disclosure, Section PS 2200. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

Concepts Underlying Financial Performance

PSAB is currently in the process of revisiting its conceptual framework, which establishes principles for the development of standards used for financial reporting by the public–sector entities in Canada. The conceptual framework is important to ensure public–sector standards appropriately reflect the economic substance of government transactions and to support transparency and accountability in public-sector reporting. PSAB continues with stakeholder communication activities and is currently deliberating on comments received on their latest consultation paper.

Asset Retirement Obligations

PSAB is currently developing an exposure draft for a new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

Revenue

PSAB is currently developing an exposure draft for revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

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Prepared By:
Date Prepared:
Date Updated:

USE OF LEGISLATED ACCOUNTING STANDARDS (Past Use)

Question - Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

SUGGESTED RESPONSE

- **The Auditor General's 2015 Annual Report included references to provincial legislation, and states that if the difference between legislated accounting and PSAB based results is material, that she would issue a qualified opinion.**

- **Prior to 2015-16, the Province's only use of legislated accounting was in reference to the Investing in Ontario Act which the former Auditor General agreed was aligned with PSAB.**

- **For the 2015-16 Public Accounts, the Province introduced legislation related to the consolidated financial results of the province once more, but this time it is time-limited and aligns with the auditor's interpretation of PSAB for pension assets of jointly sponsored pension plans.**

  The use of legislated accounting in the 2015-16 financial statements helped to mitigate confusion over the Province's reported results, while allowing time to further assess the application of PSAB to jointly sponsored pension plans. With the exception of legislated pension accounting, the remaining accounting policies applicable to the Province's

consolidated financial statements are aligned with PSAB.

- **Any decisions to use legislation, whether in relation to the Province's consolidated financial statements or controlled organizations, were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.**

- **The province has used legislated accounting selectively to clarify and confirm the consistent application of accounting treatment for government organizations that is appropriate under PSAB across the many organizations included in the Province's financial results. An example includes direction on the use of deferred capital contribution accounting by controlled organizations. In this case, the use of legislated accounting was not intended to override PSAB, but rather to ensure consistent accounting among controlled organizations with the PSAB compliant accounting policy used by the Province.**

CURRENT STATUS

- **The Province released its unaudited financial statements in the Annual Report on October 3rd. The financial statements reflected legislated accounting for pension assets related to jointly sponsored pension plans which aligned with the Auditor General's proposed basis of accounting.**

BACKGROUND

Although the Auditor General's 2015 Annual Report includes references to provincial legislation, until 2015-16, the measurement and reporting of the province's results was in accordance with Public Sector Accounting Standards. Prior to the introduction of time-limited legislated accounting for pension assets in the 2015-16 Annual Report, the only previous legislated accounting that has ever impacted the Province's Public Accounts was the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act was also time-limited and only applied to the 2008-09 Public Accounts. Until 2015-16, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all cases where we have used legislated accounting, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

With regards to the Investing in Ontario Act, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability which was subsequently confirmed by the AG as being in accordance with PSAB. Direction provided to controlled entities was to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards. A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. In addition, both entities report on US GAAP as permitted by securities regulators.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which have been consistently based on PSAB until 2015-16 when legislation was used to report pension assets related to jointly sponsored pension plans.

Prepared By: Ian Provis
Date Prepared: October 3, 2016

PUBLIC SERVICE NON-PENSION RETIREMENT BENEFITS

HOW DO THE UPCOMING CHANGES TO THE POST-RETIREMENT BENEFITS STANDARD AFFECT ONTARIO PUBLIC SERVICE EMPLOYEES?

SUGGESTED RESPONSE:

- Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.
- On February 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.
- PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of January 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.
- Also, eligible persons who have not commenced receiving a pension before January 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.
- Employees who commenced receiving a pension before January 1, 2017 will not be affected by these changes.

- Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.
- Some other public sector workers pay 100% of their benefits premiums.
- Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.
- Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

CURRENT STATUS

Recent OPSEU Concerns with Changes to Post Retirement Benefits:

- On June 1, 2016 OPSEU submitted a formal letter responding to the government's announced changes to Post Retirement Benefits, claiming that the changes were unfair to OPSEU members and adversely impact the government's finances in unintended ways.
- The OPSEU letter recommends that further negotiations on the policy and alternative cost-saving measures be held and that the decision to implement a 50:50 premium cost-sharing be delayed until Jan. 1, 2018.
- On June 16, 2016, OPSEU submitted a second letter articulating interest and intent to jointly discuss the development of a viable alternative Post Retirement Benefits option.

Accounting per Auditor General (AG)

- The AG considered the evaluation as well as the accounting for this transaction and noted that it could have had a high audit risk due to potential impact of the gain on the Province's annual deficit.
    - OAG engaged their own actuary expert to review the plan's report, the underlying assumptions, and confirmed that the estimates used by the actuary were reasonable and met the standards of the Canadian Institute of Actuaries.

- The AG confirmed that the government has accounted for the changes to public service non-pension retiree benefits in accordance with Public Sector Accounting Board accounting standards and the estimated gain amount was determined appropriately.

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BACKGROUND:

GENERAL INFORMATION ABOUT OPS PENSION PLANS:

- The OPS participates in two pension plans:
    - The Public Service Pension Plan, for which the government is the sole sponsor; and,
    - The OPSEU Pension Plan, which the government co-sponsors with the Ontario Public Service Employees Union.
- OPS pension plan members pay 50% of the contributions required by their pension plans, on average between 7% and 10% of their annual salaries.

- Both plans provide defined benefits, so retirees are provided with a monthly pension based on a fixed formula, in contrast to a defined contribution type of pension, which is more like an RRSP.
- Pensions are part of the total compensation for public servants and included in the results of the Province on an accrual basis.

Prepared By: Ian Provis
Date Prepared: October 3, 2016
Date Updated:

RATE REGULATED ACCOUNTING

Question: What is the concern with rate regulated accounting?

SUGGESTED RESPONSE

- **Financial statement users need to be able to understand the financial impacts of rate regulation when looking at the financial results as it is separate from the general revenues and expenses of the government.**
- **Decision makers need to be able to understand the decisions of the rate regulator and to be able to identify regulatory deferral account balances, in order to predict future cash flows.**
- **The regulatory environment such as the one found in Canada is strong and support the recoverability or settlement of regulatory deferral account balances.**
- **There is great value in having the financial effects of rate regulation reflected through the inclusion of amounts in the financial statements, rather than being communicated in the management commentary, because of the higher level of assurance provided by the financial statement audit.**
- **As compared with note disclosure only, the recognition of regulatory deferral account balances in the primary financial statements increases the visibility of the financial effects of rate regulation and, thus, the ease with which users can complete their analyses and perform comparisons.**

CURRENT STATUS

Rate regulated accounting continues to important to support transparency and accountability as it reflects the economic substance of activities for rate regulated

entities. The absence of a definitive decision by the IASB continues to be a concern to rate regulated entities, regardless of the fact that there is an interim standard that would grandfather rate regulated accounting.

In the absence of rate regulated accounting, the consolidated financial position of the province would not reflect the economic substance of OPG and H1 activities and undesirable volatility would be introduced into the Province's books.

We acknowledge the AG's position that OPG and H1 results should have been reported on our books as at January 1, 2015 (the date at which the deferral ended), however, in accordance with the province's accounting policy, the earliest possible date that such a change would be reflected on the Province's books is April 1, 2015.

A paper examining the decision-usefulness of financial information that reflects the economics of rate-regulated activities will be discussed at upcoming meetings of the AcSB, the International Forum of Accounting Standard Setters, and the Accounting Standards Advisory Forum (ASAF).

The Province will continue to monitor the IASB's project on rate regulated accounting.

BACKGROUND

The Accounting Standards Board (AcSB) is participating in the International Accounting Standards Board's (IASB) comprehensive project to determine whether (or how) IFRSs should be amended to provide guidance on rate-regulated activities. In January 2014, the IASB issued interim IFRS 14 Regulatory Deferral Accounts to provide guidance for first-time adopters of IFRSs with rate-regulated activities pending completion of this project.

The AcSB's due process includes ensuring those Canadian entities' financial reporting needs are considered by the IASB and issuing the AcSB's own exposure draft on each IASB proposal. Subject to the responses to the AcSB's exposure draft on whether the IASB's proposals are appropriate for application in Canada, the AcSB expects that the amendments will be incorporated into Canadian GAAP in accordance with the AcSB's strategy of adopting IFRSs for publicly accountable enterprises.

Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual

results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Prepared By: Rob Scheifley
Date Prepared: October 3, 2016
Date Updated:

From:	Schuurman, Tim (MOF)
To:	David McLean (MOF); Brian Lewis (MOL); Gadi Mayman; Ken Kandeepan
Cc:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Christina Zhang; Ghufran Tarin (MOF); Tara McGrath (MOF); Christopher Pearce (MOI); Emma Lindquist (MOF); Ronald Jaikaran (MOF)
Subject:	RE: URGENT FACT CHECK
Date:	Monday, October 03, 2016 9:47:51 AM
Attachments:	image002.png

Edits in red.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

Office of the Budget
MINISTRY of FINANCE

From: McLean, David (MOF)
Sent: October-03-16 9:28 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA)
Cc: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Zhang, Christina (OFA); Tarin, Ghufran (MOF); Pearce, James (MTO)
Subject: URGENT FACT CHECK
Importance: High

Hi all,

Can you please review the statement below and provide any **factual edits** in red? MO is looking for this urgently.

Thanks,
Dave

From: Ingram, Kelsey (MOF)
Sent: October 3, 2016 9:23 AM
To: McLean, David (MOF); Ize-Dukuze, Marilyn (MOF)
Subject: Re: For FACT CHECK

One revision in red below which will need fact checking as well

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ingram, Kelsey (MOF)
Sent: Monday, October 3, 2016 9:19 AM
To: McLean, David (MOF); Ize-Dukuze, Marilyn (MOF)
Subject: For FACT CHECK

Minister Sousa Statement

For the past 14 years, our government and previous governments have followed the same accounting standards with respect to the treatment of jointly sponsored pension plans. These standards have been consistently accepted by the past three Auditor Generals (FACT CHECK), including the current Auditor General who, under these same principles, has provided unqualified – or clean audit opinions for the past two years.

This year, within **two weeks** of the September 27th deadline for the tabling of the Public Accounts, we learned that the Office of the Auditor General had changed its mind regarding how pension assets for jointly sponsored pension plans should be recognized.

In addition, as you know, this new interpretation has resulted in a difference of opinions between accountants from within the Ontario Public Service and the Office of the Auditor General.

I have great respect for the expertise and independence of both the Office of the Auditor General and the Province's professional accounting staff and believe their respective opinions warrant additional discussion and analysis.

However, we also have a responsibility to the people of Ontario to be open and transparent about our financial position. It is important that Ontarians see that even in this time of global economic uncertainty, Ontario's economy continues to grow and our deficit continues to shrink.

In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

It is also important that we remain open and transparent so investors and the financial markets can maintain their confidence that Ontario is still on track to balance the budget in 2017-18.

That is why we have decided to release our financial statements to the public today despite the divergence in accounting opinions. In order to do this, we regulated the treatment of the pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General for 2015-16. We believe this to be the most cautious approach that ensured the public had access to our financial statements and that our numbers aligned with those of the Auditor General – at least until an independent review of the opposing opinions can be completed.

The impact of this change resulted in our deficit number being $1.5 billion larger than it otherwise would have been in 2015-16 using the standards employed for the past 14 years. I want to reiterate however Minister Sandals' comments to stress that after incorporating the Auditor's proposed accounting interpretation, we have still beaten our annual deficit target for the seventh year (FACT CHECK--CONFIRMED) in a row.

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Our government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19 as outlined in the 2016 Budget.
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Office of the Budget
MINISTRY of FINANCE

From:	McLean, David (MOF)
To:	Ken Kandeepan; Tim Schuurman (MOF); Brian Lewis (MOL); Gadi Mayman
Cc:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Christina Zhang; Ghufran Tarin (MOF); Christopher Pearce (MOI)
Subject:	RE: URGENT FACT CHECK
Date:	Monday, October 03, 2016 9:40:21 AM

Thanks Ken. Will flag. Can everyone else please respond using this chain? The wrong Pearce was on the email.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October 3, 2016 9:39 AM
To: McLean, David (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA)
Cc: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Zhang, Christina (OFA); Tarin, Ghufran (MOF); Pearce, James (MTO)
Subject: RE: URGENT FACT CHECK

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Given that we intend to reverse the pension adjustment in the FES which changes the ratios materially eliminating this sentence would be appropriate at this time.

Thanks

Ken k

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Sent: Monday, October 03, 2016 9:28 AM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; James Pearce (MTO) <James.Pearce@ontario.ca>
Subject: URGENT FACT CHECK
Importance: High

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Thank you.

We will now take your questions.

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This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message,

including any attachments, without reading them, and destroy all copies. Thank you.

From:	Ken Kandeepan
To:	David McLean (MOF); Tim Schuurman (MOF); Brian Lewis (MOL); Gadi Mayman
Cc:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Christina Zhang; Ghufran Tarin (MOF); James Pearce (MTO)
Subject:	RE: URGENT FACT CHECK
Date:	Monday, October 03, 2016 9:38:35 AM

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To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; James Pearce (MTO) <James.Pearce@ontario.ca>
Subject: URGENT FACT CHECK
Importance: High

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Cc:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Christina Zhang; Ghufran Tarin (MOF); Tara McGrath (MOF); Christopher Pearce (MOI); Emma Lindquist (MOF); Ronald Jaikaran (MOF)
Subject:	RE: URGENT FACT CHECK
Date:	Monday, October 03, 2016 9:53:32 AM
Attachments:	image001.png

Thanks Tim, but as per my previous email our preference would be to remove the entire sentence: "Based on our government's plan, net debt-to-GDP is expected to peak in 2015–16, remain level in 2016–17 {suggest deleting 16-17 reference} and begin to decline in 2017–18 – supporting greater sustainability in Ontario's debt management".

Ken K

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Monday, October 03, 2016 9:48 AM
To: David McLean (MOF) <David.McLean@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Ronald Jaikaran (MOF) <Ronald.Jaikaran@ontario.ca>
Subject: RE: URGENT FACT CHECK

Edits in red.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
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Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: PA
Date: Tuesday, September 27, 2016 10:00:24 AM

True, I have also raised the question with Nadine whether the 9.1 needs to be allocated over each applicable year in the past or if it can be included in one lump sum in the opening accumulated deficit for 15-16.

The latter reflects the approach adopted for the contaminated lands adjustment a couple of years ago and makes easy to reverse for the FES. Diminishes the probability of errors.

Let me know if you have any concerns.

Thanks

Ken k

On Sep 27, 2016, at 9:07 AM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Not clear that she won't qualify anyhow, but then the debate would be over technicalities, not dollars.
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Tuesday, September 27, 2016 9:05 AM
> **To:** Gadi Mayman
> **Cc:** Christina Zhang
> **Subject:** RE: PA
>
> Thanks very interesting, on one hand legislation needs to be passed to avoid qualification, on the other hand the previous passage of legislation allowing OPG and H1 to adopt US GAAP may result in a qualification next year.
>
> Ken K
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Tuesday, September 27, 2016 9:03 AM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Subject:** Re: PA
>
> Two choices are going to be presented at the meeting they're having today.
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Tuesday, September 27, 2016 8:50 AM
> **To:** Gadi Mayman
> **Cc:** Christina Zhang

Subject: RE: PA

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Thanks

Ken K

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Sent: Tuesday, September 27, 2016 7:56 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: PA

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To: Gadi Mayman
Cc: Christina Zhang
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From: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Sent: Tuesday, September 27, 2016 7:19 AM
To: Scott Thompson (CAB); Ghiassi, Ali (MOF)
Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF)
Subject: Re: PA

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Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
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Date: Tuesday, September 27, 2016 9:07:26 AM

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: PA
Date: Tuesday, September 27, 2016 7:48:40 AM

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From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: PA
Date: Tuesday, September 27, 2016 10:08:47 AM

So many moving parts at the moment that it's best to sit and wait for the outcome. Right now the idea is, if going with the legislated option, that deficits would be adjusted going back and the net debt to GDP and to revenue ratios would be adjusted back for each year. They've included those numbers in the presentation that they're showing now.

On Sep 27, 2016, at 10:00 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> True, I have also raised the question with Nadine whether the 9.1 needs to be allocated over each applicable year in the past or if it can be included in one lump sum in the opening accumulated deficit for 15-16.
>
> The latter reflects the approach adopted for the contaminated lands adjustment a couple of years ago and makes easy to reverse for the FES. Diminishes the probability of errors.
>
> Let me know if you have any concerns.
>
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From: Laughton, Patrick (TBS)
To: Ronald Jaikaran (MOF); Alana Anderson (MOF)
Cc: Birks, Ryan (MOF); Christina Zhang; Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Extract
Date: Saturday, October 29, 2016 11:27:16 AM
Attachments: image001.png
image002.png

Organizing meetings on Saturday morning? You're making us all look bad Ron! (thanks!)

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Jaikaran, Ronald (MOF)
Sent: Saturday, October 29, 2016 11:25 AM
To: Laughton, Patrick (TBS); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: RE: Pension Extract

I already set up some time on Tuesday. But if we can get everyone together on Monday that would be great too.

Cheers,
Ron

-----Original Appointment-----
From: Jaikaran, Ronald (MOF) On Behalf Of Schuurman, Tim (MOF)
Sent: October-29-16 11:08 AM
To: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Petsche, Nadine (TBS); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); @FIN-R-TOR.7QueensParkCres.Trillium.Boardroom (MOF)
Subject: FES Narrative | Pension Language Discussion
When: November-01-16 11:00 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: Trillium Boardroom | Frost South, 7th Floor

From: Laughton, Patrick (TBS)
Sent: October-29-16 11:23 AM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Fw: Pension Extract

This is very helpful - thank you.

Nermina and I will connect with folks on Monday to organize the meet.

Hope everyone is having a good weekend.

P.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>

Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

- Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.

  - This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

- Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected."

- Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

- Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.

- Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

[cid:image002.png@01D0E4D5.A25B16F0]

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

Wondering if, as part of landing today's distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management) that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

- Tara can help locate all the references in the fiscal chapter
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- Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
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[cid:image002.png@01D0E4D5.A25B16F0]


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From: Jaikaran, Ronald (MOF)
To: Patrick Laughton (MOF); Alana Anderson (MOF)
Cc: Birks, Ryan (MOF); Christina Zhang; Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Extract
Date: Saturday, October 29, 2016 11:28:12 AM
Attachments: image001.png
image002.png

Sadly, I'm at the office. Have a good weekend everyone!

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Laughton, Patrick (TBS)
Sent: Saturday, October 29, 2016 11:27 AM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Extract

Organizing meetings on Saturday morning? You're making us all look bad Ron! (thanks!)

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Jaikaran, Ronald (MOF)
Sent: Saturday, October 29, 2016 11:25 AM
To: Laughton, Patrick (TBS); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: RE: Pension Extract

I already set up some time on Tuesday. But if we can get everyone together on Monday that would be great too.

Cheers,
Ron

-----Original Appointment-----
From: Jaikaran, Ronald (MOF) On Behalf Of Schuurman, Tim (MOF)
Sent: October-29-16 11:08 AM
To: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Petsche, Nadine (TBS); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); @FIN-R-TOR.7QueensParkCres.Trillium.Boardroom (MOF)
Subject: FES Narrative | Pension Language Discussion
When: November-01-16 11:00 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: Trillium Boardroom | Frost South, 7th Floor

From: Laughton, Patrick (TBS)
Sent: October-29-16 11:23 AM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Birks, Ryan (MOF); Zhang, Christina (OFA); Mehanovic, Nermina (TBS); Hosick, Sarah (TBS)
Subject: Fw: Pension Extract

This is very helpful - thank you.

Nermina and I will connect with folks on Monday to organize the meet.

Hope everyone is having a good weekend.

P.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>
Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

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Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: Schuurman, Tim (MOF)
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Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>); Birks, Ryan (MOF)
Subject: Pension Extract

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[cid:image002.png@01D0E4D5.A25B16F0]


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From:	Ize-Dukuze, Marilyn (MOF)
To:	Mercedes Sawosch (CAB); Patrick Laughton (MOF); Jason Wesley (MGS); Birks, Ryan (MOF); Tomasz Bugajski; Ghufran Tarin (MOF); Christina Zhang
Cc:	Matthew Sylvain (MOF); David Morris (MAG); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject:	Re: SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 6:08:01 PM

Thanks Mercedes - additional materials can be added in the morning, nothing being printed after these for tonight.

Marilyn
ph. 416.326.8529 | bb. 416.302.3609

Envoyé de mon smartphone BlackBerry 10 sur le réseau Rogers.
De: Sawosch, Mercedes (TBS)
Envoyé: mardi 4 octobre 2016 17:58
À: Laughton, Patrick (TBS); Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Objet: RE: SCOPA Materials | Final Binders

Here's what we have so far.

From: Laughton, Patrick (TBS)
Sent: October-04-16 5:57 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – a few more we were asked to do which I have added to the list.

Some of these are finished now and Mercedes sending in a moment.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:55 PM
To: Ize-Dukuze, Marilyn (MOF); Laughton, Patrick (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hi there,

From my list, the others are:

1. WSIB Unfunded Liability, PBGF, MVACF (accounting)

2. Use of Legislated Accounting Standards

3. Financial Instruments Standard

4. Rate Regulated Accounting

5. Implementation of Liability for Contaminated Sites

6. Potential Changes to the Standard Audit Report

7. Public Sector Accounting Board Initiatives

8. Legislated Accounting Standards

9. FSD&A Enhancements

10. 2015-16 Annual Report and Unaudited Consolidated Financial Statements

(I already sent PRRT and retirement benefits)

J
From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:48 PM
To: Laughton, Patrick (TBS); Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

BudSec is including the 2 CINS Jason just shared.

What are the other outstanding CINS? The names at least, so we can add to the TOC?

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Laughton, Patrick (TBS)
Sent: Tuesday, October 4, 2016 5:46 PM
To: Wesley, Jason (TBS); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS); Sawosch, Mercedes (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thanks – my understanding is we are all done on the friendlies, there were some additional CINs that we were developing on the TBS side, I am wondering if there is merit in including them in the TOC and we can insert them in the binders once they are ready. Mercedes can confirm but we're expecting these very soon.

P.

From: Wesley, Jason (TBS)
Sent: October-04-16 5:39 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Thx M – just FYI – I did incorporate some feedback from OTB on the TBS portion of the friendlies that I flipped over…

J

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 5:35 PM
To: Wesley, Jason (TBS); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Bud Sec is printing away. Waiting for final comments from OTB on friendlies and binders will be coming up.

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Wesley, Jason (TBS)
Sent: Tuesday, October 4, 2016 5:01 PM
To: Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF); Laughton, Patrick (TBS); Morris, David (TBS); Smith, Emilie (TBS); Doose, Ann (TBS)
Subject: RE: SCOPA Materials | Final Binders

Hello MOF,

As requested, attached are the TBS products for SCOPA. They are:

- Our input into the consolidated friendly Q document
- Our General QA on TBS related issues that may arise
- The QA for the separate tab on the 15-16 public accounts – this is the supporting messaging to be used as a contingency if the DM's need to go there
- Our DM's speaking notes (Marilyn, when I time them for our DM's style it seems to come in at about 9-10 minutes or so)

Also, if you are still including the CIN's – attached are the two that I have (PRRT and retirement benefits) – Patrick may have more to add. Pls let us know if you plan to include them.

Hope this helps,

Jason

From: Ize-Dukuze, Marilyn (MOF)
Sent: October 4, 2016 2:35 PM
To: Birks, Ryan (MOF); Bugajski, Tomasz (OFA); Wesley, Jason (TBS); Smith, Emilie (TBS); Tarin, Ghufran (MOF); Zhang, Christina (OFA)
Cc: Sylvain, Matthew (MOF)
Subject: SCOPA Materials | Final Binders
Importance: High

Hi all –

List of Materials requiring edits by EOD as per 12pm meeting. I've attached the latest version of each document.

Remarks

- DM Orencsak (10mins)
- DM Thompson (5mins) – please remove references to 2015-16 PA
- Gadi Mayman (3mins) – please remove references to 2015-16 PA
- Tom Teahan (3mins) – WSIB will share these shortly, I've advised them of the timing.

Friendly QAs - please remove references to 2015-16 PA

- TBS Comms to provide edits TBS Questions and answers.

General QAs (should only about 2014-15 PA, such as version used for Sept 30, 2016 meeting)

- MOF (OFA has already made their edits, folks can continue working from that version)
- TBS (TBS Comms, can you share this once you've separated out the 2015-16 QAs?)

2015-16 PA Q&As Package – should be separate from General QAs on 2014-15 PA

- TBS Comms to provide. I have already sent CEFD and OTB edits for this document.

Let me know if there are any questions via this thread.

Thanks

Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca<mailto:marilyn.ize-dukuze@ontario.ca>

From:	Ize-Dukuze, Marilyn (MOF)
To:	Ghufran Tarin (MOF); Sofie DiMuzio (MGS); Travis Coulter (TCU); Tim Schuurman (MOF); Matthew Sylvain (MOF); David Morris (MAG); Ize-Dukuze, Marilyn (MOF); Tara McGrath (MOF); Greg Orencsak (MOF); Brian Lewis (MOL); Paul Lewis (MOF); Ronald Kwan; Bruno Amara (MOF); Arruda, Artur (TBS); Christina Zhang; Ken Kandeepan; Nicole Simone (MOI); Rebecca Morier (MOF); Ostergard, Matt (TBS); Tomasz Bugajski; Law, Rex (TBS); Bryant Sullivan (MAG); Dianne Lone (MOF); Jason Wesley (MGS); Kyle MacIntyre (MOF); Christopher Pearce (MOI); Mercedes Sawosch (CAB); David McLean (MOF); Kearney, Heather (MOF); Lauren Tedesco (EDU); Karen Hughes (MGS); Saad Baig (MOI-MTO); Birks, Ryan (MOF); Nadine Petsche (MOF); Patrick Laughton (MOF); Veinot, Cindy (TBS); Gadi Mayman
Cc:	Scott Thompson (CAB); Dale, Lindsay (MOF)
Subject:	SCOPA 2016 | Briefing Binders | Materials
Date:	Tuesday, October 04, 2016 8:40:46 PM
Attachments:	Tab 1 AG 2015 Annual Report - Chapter 2.pdf Tab 3.1 Deputy Orencsak Remarks.pdf Tab 3.2 DM Thompson Remarks.pdf Tab 3.3 Gadi Maymans Remarks.pdf Tab 3.4 Tom Teahen DRAFT Remarks.pdf Tab 2.1 Status Report for the Auditor General's 2015 Annual Report.pdf Tab 2.2 SCOPA Logistics BN.PDF Tab 5.2 TBS Questions and Answers.pdf Tab 4 Friendly Questions.pdf Tab 6 2015-16 Public Accounts Q&As.pdf Tab 8.1 Questions from Committee Members on AG 2014 Annual Report as per Hansard.pdf Tab 7.1 MOF CINs.pdf TOC_SCOPA 2016.pdf
Importance:	High

Hi –

Please see attached materials for the SCOPA Briefing Binders. These incorporate edits from the 12pm discussion. Physical copies of the binders will be available tomorrow at 9am, in the DMO suite at Frost South.

Please refer to the updated TOC to navigate the products.

Unfortunately, the following items remain outstanding from these attachments, but will be added by your EA tomorrow morning once finalized:

- Tab 5.1. MOF Questions and Answers
- Tab 7.2. TBS CINs & Key Highlights

Thanks,

Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

Chapter 2

Public Accounts of the Province

Introduction

Ontario's Public Accounts for the fiscal year ending March 31, 2015, were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act* (Act) and the President of the Treasury Board. The Public Accounts consist of the province's Annual Report, including the province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records.

My Office audits these consolidated financial statements. The objective of our audit is to provide reasonable assurance that the statements are free of material misstatements—that is, free of significant errors or omissions. The consolidated financial statements, along with my Independent Auditor's Report, are included in the province's Annual Report.

The province's 2014/15 Annual Report also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ended March 31, 2015. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1—statements from all ministries and a number of schedules providing details of the province's revenue and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- Volume 2—audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous audited financial statements; and
- Volume 3—detailed schedules of ministry payments to vendors and transfer-payment recipients.

My Office reviews the information in the province's Annual Report, and in Volumes 1 and 2 of the Public Accounts, for consistency with the information presented in the province's consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its Annual Report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The three supplementary volumes must be submitted to

the Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the province's 2014/15 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on September 28, 2015, meeting the legislated deadline.

In conducting our annual audit of the Public Accounts we work closely with the Treasury Board Secretariat and particularly with the Office of the Provincial Controller and the Ministry of Finance. While we might not always agree on financial reporting issues, our working relationship has always been professional and constructive.

Summary

A major area of commentary in our *2014 Annual Report* focused on Ontario's growing debt burden. As a follow-up, we discuss the topic this year, focusing on the critical implications of the growing debt for the province's finances. Increases in the debt are attributable to continued government borrowing to finance deficits and infrastructure spending. Although the debt has been growing at a somewhat lower rate than last year's estimates, it continues to rise.

The negative impacts of a large debt burden include:

- debt-servicing costs divert funding away from other government programs;
- a greater vulnerability to any interest-rate increases; and
- potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive for Ontario to borrow.

Consistent with our commentary last year, we continue to take the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt, and we again recommend that the government develop a long-term debt-reduction plan.

We also report in this chapter that the province's consolidated financial statements consistently comply with the standards of the Public Sector Accounting Board (PSAB) in all material respects. Successive governments have been diligent in their continued efforts to improve the clarity and completeness of the province's consolidated financial statements and Annual Report. This was demonstrated in this year's Public Accounts, with the province recognizing an additional $1.7 billion in environmental liabilities in its March 31, 2015 Consolidated Financial Statements, in accordance with PSAB's new accounting standard, *PS 3260, Liability for Contaminated Sites*, which addresses accounting for, and reporting liabilities associated with, contaminated sites and their remediation.

We also reviewed the content of the Financial Statement Discussion and Analysis (FSD&A) included in the province's Annual Report. Overall, we believe the FSD&A is easy to understand and highlights the financial management principles underlying the province's financial results and actual-to-budget variances during the past year. However, we have identified a number of areas where additional information to improve insight into the province's financial position and annual operating results for the year could be incorporated into the FSD&A.

It is our view that PSAB standards are the most appropriate for the province to use in preparing the consolidated financial statements. This ensures that information provided by the government about the surplus and the deficit is fair, consistent and comparable to data from previous years. This allows legislators and the public to better assess government management of the public purse.

However, we note PSAB faces challenges in reaching a consensus among its various stakeholders, including auditors and those who prepare financial statements, on what accounting standards are most appropriate for the public sector. In this Annual Report, we discuss three significant accounting issues that PSAB has been addressing on an ongoing basis. We further outline PSAB initiatives relating to the development of new accounting standards that might impact the preparation of the province's consolidated financial statements in the future.

We also raise again the issue of Ontario having introduced legislation on a number of occasions to establish specific accounting practices that are not, in some cases, consistent with PSAB. Up to now, this has not had any material impact on the province's consolidated financial statements. However, the use of existing legislated accounting treatments by the government on future transactions, or the introduction by the government of further legislated accounting treatments, could make this a greater concern to my Office that the financial results of the province may not be fairly stated. Therefore, standard-setters, governments and auditors must work together in the public interest to resolve financial reporting issues faced by governments and public-sector entities.

The Province's 2014/15 Consolidated Financial Statements

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. I am pleased to note that my Independent Auditor's Report to the Legislative Assembly on the province's Consolidated Financial Statements for the year ended on March 31, 2015, is free of reservations. It reads as follows:

Independent Auditor's Report

To the Legislative Assembly of the Province of Ontario

I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations, change in net debt, change in accumulated deficit and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Government of Ontario is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2015, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[signed]

Toronto, Ontario
August 21, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

The above audit opinion is without any reservation, indicating that the consolidated financial statements fairly present the province's fiscal results for the 2014/15 fiscal year and its financial position at March 31, 2015 in accordance with Public Sector Accounting Board standards. This "clean" audit opinion means that, based on our audit work, we have concluded that the province's consolidated financial statements were prepared in accordance with accounting standards recommended for governments by the Chartered Professional Accountants of Canada (CPA Canada). We are also communicating to users that the province's consolidated financial statements do not have any material or significant errors and provide a fair reflection of what has actually transpired during the year.

If we were to have concerns with the government's compliance with CPA Canada's recommended Public Sector Accounting Board (PSAB) standards, we may be required to issue an audit opinion with a reservation. An audit opinion with a reservation means significant financial transactions have not been recorded, have not been recorded properly, or have not been disclosed properly in the notes to the province's consolidated financial statements.

In determining whether a reservation is needed, we consider the materiality or significance of the unrecorded, misstated or improperly disclosed items in relation to the overall consolidated financial statements. An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. Essentially, we ask the question "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission material.

To help make this assessment, we determine a materiality threshold. This year, as in past years and consistent with most other provincial jurisdictions, we set the threshold at 0.5% of the greater of government expenses or revenue for the year. If misstated items individually or collectively exceed this threshold, and management is not willing to make appropriate adjustments, a reservation in our Independent Auditor's Report would be required.

My Office has been working closely with the Office of the Provincial Controller Division of the Treasury Board Secretariat over the years to enhance the usefulness, readability and transparency of Ontario's Annual Report and consolidated financial statements, so we were pleased to see

a recent report from the C.D. Howe Institute on federal and provincial reporting practices that recognized these enhancements. Ontario received a grade of "A," ranking it among the best in the overall quality of its reporting on financial results. A major aim of the C.D. Howe report is to celebrate the relatively transparent reporting in New Brunswick, Saskatchewan, Ontario and Ottawa, and to encourage other jurisdictions to raise their game.

As a final comment, it is notable that in the past 22 years, all Ontario governments regardless of their political party have complied in all material respects with approved accounting standards. Accordingly, our Office has been able to issue "clean" audit opinions on the province's consolidated financial statements every year since the province adopted PSAB accounting standards in the 1993/94 fiscal year.

Update on Ontario's Debt Burden

In our *2014 Annual Report*, we commented on Ontario's growing debt burden, attributable to its large deficits in recent years and its investments in capital assets such as infrastructure. We noted that the province has been able to rely on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself, whether measured as total debt, net debt or accumulated deficit, continued to grow. **Figure 1** shows the province's debt levels continue to rise, though at a lower rate than projected last year.

- **Total debt** is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, T-bills and U.S. commercial paper. Total debt provides the broadest measure of a government's debt load.
- **Net debt** is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- **Accumulated deficit** represents the sum of all past annual deficits and surpluses of the government. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

Figure 1: Total Debt, Net Debt, and Accumulated Deficit, 2009/10–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 Ontario Budget and Office of the Auditor General of Ontario

	Actual ($ million)						Estimate ($ million)		
	2009/10[1]	2010/11[1]	2011/12[1]	2012/13[1]	2013/14[1]	2014/15[2]	2015/16[1]	2016/17[1]	2017/18[1]
Total debt	212,122	236,629	257,278	281,065	295,758	314,960	323,619	334,800	341,400
Net debt	193,589	214,511	235,582	252,088	267,190	284,576	298,864	311,500	319,500
Accumulated deficit	130,957	144,573	158,410	167,132	176,634	187,511	194,848	199,700	199,700

1. 2015 Ontario Budget
2. 2014/15 Province of Ontario Consolidated Financial Statements

Main Contributors to Net Debt

The province's growing net debt since the end of the 2008/09 fiscal year is attributable to its large deficits in recent years, along with its investments in capital assets such as buildings, other infrastructure and equipment acquired directly or through public-private partnerships for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 2**.

While annual deficits are projected to decline, the province is still increasing its borrowings annually to finance these deficits, replace maturing debt and to fund infrastructure. In fact, the net debt is projected to continue growing in absolute terms even after the province starts to run annual budget surpluses. The province can begin paying down its debt only when such future surpluses provide cash flows over and above the amounts required to fund government operations and net investments in tangible capital assets.

By the time the government projects it will have eliminated the deficit in 2017/18, Ontario's net debt will have doubled over a 10-year period, from $156.6 billion in 2007/08 to over $319.0 billion by 2017/18. We estimate total debt will exceed $340.0 billion by 2017/18.

To put this debt in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $12,000 per person in 2008 to about $23,000 per person in 2018. In other words, to eliminate Ontario's net debt, each Ontarian would need to contribute $23,000 to the provincial coffers.

Ontario's Ratio of Net Debt to GDP

We noted a key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. This ratio of debt to the market value of goods and services produced by an economy (the gross domestic product, or GDP) measures the relationship between a government's obligations and its capacity to raise the

Figure 2: Net Debt Growth Factors, 2009/10–2017/18 ($ million)

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 Ontario Budget and Office of the Auditor General of Ontario

	Net Debt Beginning of Year	Deficit/ (Surplus)	Net Investment in Tangible Capital Assets[1]	Miscellaneous Adjustments[2]	Net Debt End of Year	Increase/ (Decrease)
Actual						
2008/09	156,616	6,409	5,348	1,212	169,585	12,969
2009/10	169,585	19,262	5,832	(1,090)	193,589	24,004
2010/11	193,589	14,011	7,306	(395)	214,511	20,922
2011/12	214,511	12,969	7,234	868	235,582	21,071
2012/13	235,582	9,220	7,784	(498)	252,088	16,506
2013/14	252,088	10,453	5,600	(951)	267,190	15,102
2014/15	267,190	10,315	6,509	562	284,576	17,386
Estimated						
2015/16	284,576	8,500	5,788		298,864	14,288
2016/17	298,864	4,800	7,836		311,500	12,636
2017/18	311,500	-	8,000		319,500	8,000
Total over 10 years	**—**	**95,939**	**67,237**	**(292)**	**—**	**162,884**

1. Includes investments in government-owned and broader public sector land, buildings, machinery and equipment, and infrastructure assets capitalized during the year less annual amortization and net gains reported on sale of government-owned and broader public sector tangible capital assets.
2. Unrealized Fair Value Losses/(Gains) on the Ontario Nuclear Funds Agreement (ONFA) Funds held by Ontario Power Generation Inc. and accounting changes.

funds needed to meet them. It is an indicator of the burden of government debt on the economy.

If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, the ratio is rising—it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

Figure 3 shows that the province's net debt-to-GDP ratio gradually fell over a period of eight years, from a high of 32.2% in 1999/2000 to 26.2% in 2007/08. However, it has been trending upward since then, reflecting such factors as the 2008 global economic downturn, when tax revenues fell abruptly and the government increased its borrowings significantly to fund annual deficits and infrastructure stimulus spending.

The net debt-to-GDP ratio is projected to reach a high of 39.9% in each of 2015/16 and 2016/17. After this peak, the government expects the ratio will begin falling, dropping to 39.3% in 2017/18. We note a small improvement in the projected net debt-to-GDP ratio from last year's estimate, reported in the province's 2013/14 Annual Report, of 40.5% in 2015/16, 40.3% in 2016/17, and 39.5% in 2017/18.

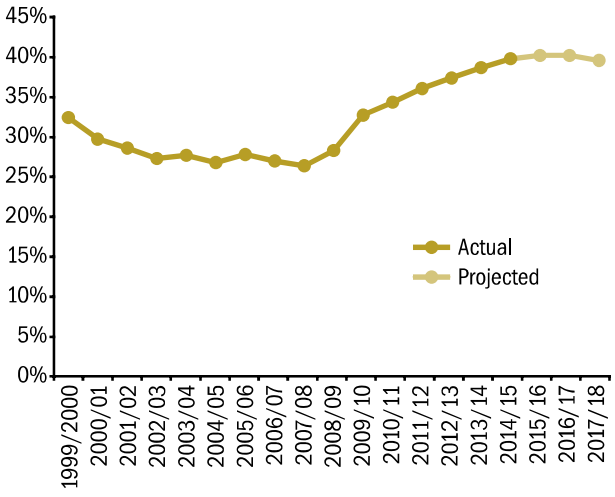
We noted in our *2014 Annual Report* that many experts believe when a jurisdiction's net debt-to-GDP ratio rises above 60%, that jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks.

We also warned it was somewhat of an oversimplification to rely on just one measure to assess a government's borrowing capacity, because that measure does not take into account Ontario's share of federal and municipal debts. If the province's share of those debts was included in its indebtedness calculations, the net debt would be much higher. However, consistent with debt-measurement methodologies used by most jurisdictions, we have focused throughout our analysis only on the provincial government's net debt.

An interesting exercise in assessing Ontario's ratio of net debt-to-GDP is to compare it with other Canadian jurisdictions. **Figure 4** shows the net debt of most provinces and the federal government, along with their respective ratios of net debt-to-GDP. Generally, the western provinces have a significantly lower net debt-to-GDP ratio than Ontario and the Atlantic provinces, and Quebec has a significantly higher ratio than Ontario.

Figure 3: Ratio of Net Debt to Gross Domestic Product (GDP), 1999/2000–2017/18

Source of data: March 31, 2015 Province of Ontario Annual Report – Financial Statement Discussion and Analysis



Note: Net debt includes broader-public-sector net debt starting in 2005/06.

Figure 4: Net Debt and the Net-debt-to-GDP Ratios of Canadian Jurisdictions, 2014/15

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Report and Consolidated Financial Statements of other provincial jurisdictions; Federal Budgets and budget updates, budgets of provincial jurisdictions; and the Office of the Auditor General of Ontario

	Net Debt ($ million)	Net Debt to GDP (%)
AB	(13,054)	(3.6)
SK	5,552	6.7
BC	38,902	16.3
NL	10,259	29.2
MB	18,963	29.8
Federal	687,000	34.8
PEI	2,149	36.0
NS	15,031	37.0
NB	12,422	38.2
ON	284,576	39.5
QC	190,402	50.7

Ratio of Net Debt to Total Annual Revenue

Another useful measure of government debt is the ratio of net debt to total annual revenues, an indicator of how much time it would take to eliminate the debt if the province spent all of its revenues on nothing but debt repayment. For instance, a ratio of 250% indicates that it would take two-and-a-half-years to eliminate the provincial debt if all revenues were devoted to it. As shown in **Figure 5**, this ratio declined from about 200% in 1999/2000 to about 150% in 2007/08, reflecting the fact that, while the province's net debt remained essentially the same, annual provincial revenue was increasing. However, the ratio has increased steadily since 2007/08 and is expected to top 238% by 2017/18. This increasing ratio of net debt to total annual revenue indicates the province's net debt has less revenue to support it.

Ratio of Interest Expense to Revenue

Increases in the cost of servicing total debt, or interest expense, can directly affect the quantity and quality of programs and services that government can provide: the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for program spending in other areas.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 6** shows, the province's interest-expense-to-total-revenue ratio decreased steadily in the decade ending in 2007/08, due mainly to a lower interest-rate environment. Because rates have been at historic lows since the beginning of this decade, both the actual and projected interest-expense-to-total-revenues ratio have held steady from 2009/10 to now at approximately 9.0% and are expected to continue to hold steady at around 9.0% to 2015/16. This is the case even as the province's total borrowings are expected to increase by approximately $111.0 billion, or 52%, from $212.0 billion to over $323.0 billion.

Based on the government's latest projections, the ratio is expected to gradually increase to 9.6% by 2016/17 and to almost 10% by 2017/18, when total debt is expected to be around $340 billion.

The province's debt also exposes it to further risks, the most significant being interest-rate risk.

Figure 5: Ratio of Net Debt as Percentage of Total Annual Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario

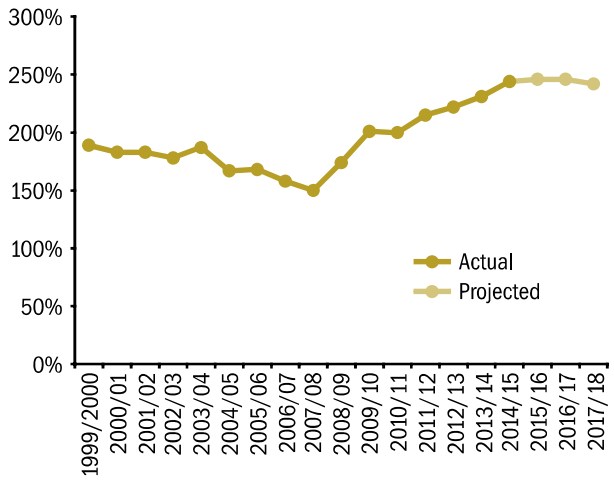
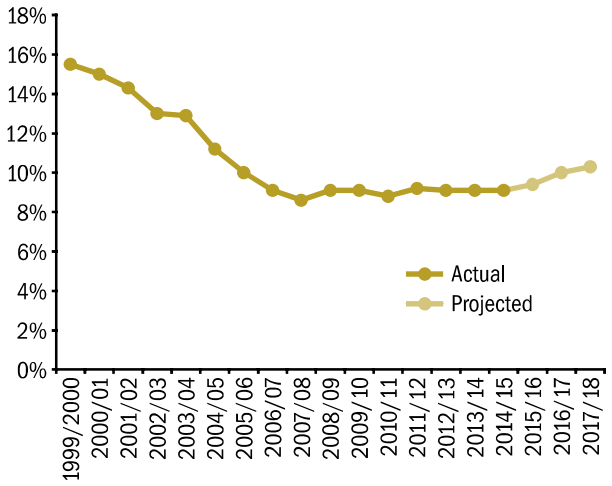


Figure 6: Ratio of Interest Expense to Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario



As discussed above, interest rates are currently at record low levels, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. However, if interest rates rise, the government will have considerably less flexibility to provide public services because a higher proportion of its revenues will be required to pay interest on the province's outstanding debt. The government has mitigated its interest-rate risk to some extent by increasing the weighted average term of its annual borrowings. In 2008/09, the average borrowing term was 8.6 years, increasing to 14.1 years in 2014/15.

The increase in the ratio of interest-expense-to-revenue, expected to begin in 2016/17, indicates the government will have less flexibility to respond to changing economic circumstances. Past government borrowing decisions mean a growing portion of revenues will not be available for other current and future government programs.

Consequences of High Indebtedness

Our commentary last year highlighted the consequences for the province of carrying a large debt load—and the same observations are relevant this year. They include the following:

- **Debt-servicing costs cut into funding for other programs:** As debt grows, so do interest costs. As interest costs consume a greater proportion of government resources, there is less to spend on other things. To put this "crowding-out" effect into perspective, the government currently spends more on debt interest than on post-secondary education.
- **Greater vulnerability to interest-rate increases:** Over the past few years, governments have generally benefitted from record-low interest rates. Ontario has been able to keep its annual interest expense relatively steady, even as its total borrowing has increased significantly. For example, it was paying an average effective interest rate of about 8% in 1999/2000, but that dropped to 3.73% in 2014/15. However, if interest rates start to rise again, the government will have considerably less flexibility to provide public services as it will have to devote a higher proportion of its revenue to interest.
- **Potential credit-rating downgrades could lead to higher borrowing costs:** Prepared by specialized agencies, credit ratings assess a government's creditworthiness largely based on its capacity to generate revenue to service its debt. They consider such factors as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks. A credit rating affects the cost of future government borrowing, with a lower rating indicating that an agency believes there is a relatively higher risk that a government will default on its debt. Accordingly, investors will lend to that government only in return for a greater risk premium, in the form of higher interest rates. A rating downgrade can also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.

Final Thoughts

We recognize that, ultimately, decisions about how much debt the province should carry, and the strategies to pay down that debt, are questions of government policy. However, as we observed last year, this should not prevent the government from providing information to promote a greater understanding of the issue and clarify the choices it is making, or will make, to address it.

We continue to believe that in light of the government's plan to eliminate its annual deficit by 2017/18, and given that its debt-carrying costs were expected to rise from their current historic lows, this would be a good time for the government, legislators and the public to start a

conversation about the potential reduction of the provincial debt.

We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits (debt used to finance infrastructure is more likely to leave behind tangible capital assets that benefit future generations).

The government has presented a plan to eliminate its annual deficit in 2017/18 by restraining spending, and committed to subsequently reducing the net debt-to-GDP ratio to the pre-recession level of 27%. However, no clear strategy has been articulated for paying down current and future debt. Regardless of what strategy is being contemplated, we believe the government should provide legislators and the public with long-term targets for its plans to address current and projected debt. Therefore, we are reiterating our recommendation from last year.

RECOMMENDATION

In order to address the province's growing total debt burden, the government should work toward the development of a long-term total-debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

TREASURY BOARD SECRETARIAT RESPONSE

The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a $130-billion plan over 10 years to invest in capital. Those capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt.

One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A recent report found that, on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term.

The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target.

The Province's Annual Report

The province's consolidated financial statements are key accountability documents that describe more than just the province's bottom line. The amounts reported in the statements, along with the notes, provide important information on the province's financial health.

However, many people, including those who do not have an accounting background, find government financial statements complicated and difficult to understand.

Each year the government provides a Financial Statement Discussion and Analysis (FSD&A) in its Annual Report to help the public understand the province's consolidated financial statements. The FSD&A is supposed to help users of the statements understand the impact of economic conditions and of government decisions on the province's financial results for the year, and its financial position at year end.

The FSD&A in this year's Annual Report compares the province's actual results for 2014/15 to the approved 2014/15 Budget presented in the previous year, and explains major variances. The Annual Report also outlines trends in a number of financial indicators over the past several years such as the composition of revenue by source and expense by sector, spending per capita (as a share of GDP), net debt to GDP and net debt per capita.

Overall, we believe the FSD&A accompanying the province's consolidated financial statements is easy to understand and highlights the financial management principles underlying the province's financial health over the past year. However, we have identified for consideration by the government a number of improvements that could be incorporated into the current FSD&A.

Strong public reports can be a powerful tool for legislators and the public to hold governments accountable, especially when the approved Budget is reflected in the report. A thorough FSD&A, in combination with audited financial statements, helps a government demonstrate its accountability with resources.

Financial Statement Discussion and Analysis

The FSD&A is an essential supplement to the basic financial statements that enhances user understanding of the results for future decision-making and accountability by presenting insights into the province's financial position and operating results for the year. For this reason, the Public Sector Accounting Board (PSAB) has developed a framework for reporting FSD&A through their Statements of Recommended Practice (SORPs).

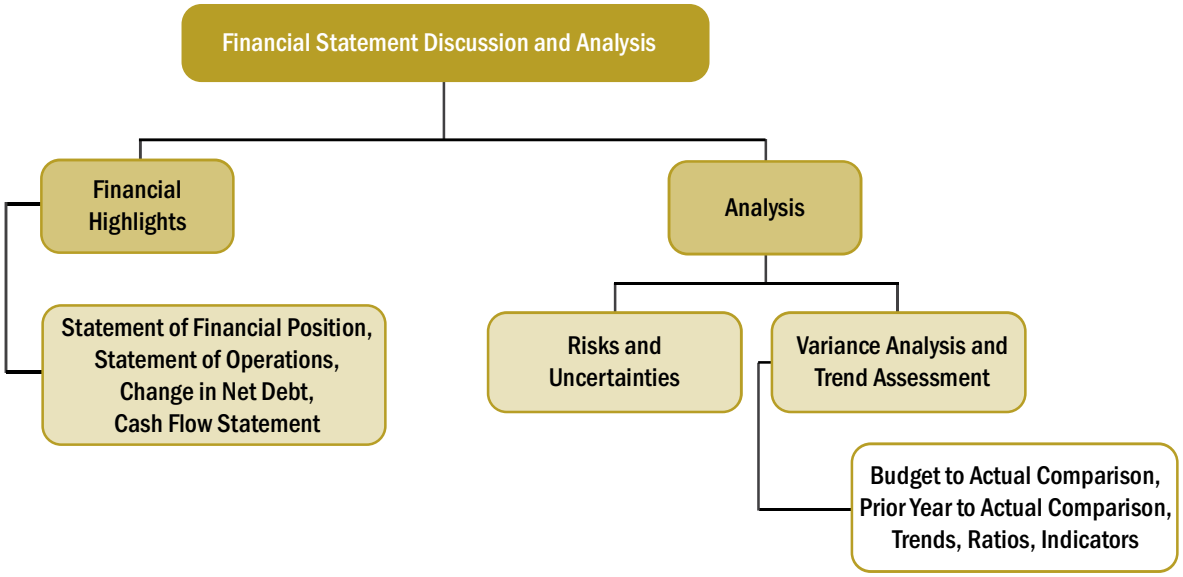
PSAB has issued four SORPs to provide general guidance on supplementary reporting beyond the financial statements. These are:

- SORP-1 *Financial Statement Discussion and Analysis*;
- SORP-2 *Public Performance Reporting*;
- SORP-3 *Assessment of Tangible Capital Assets*; and
- SORP-4 *Indicators of Financial Condition*.

The FSD&A Reporting Framework ("Framework"), discussed in SORP-1, is illustrated in **Figure 7**. The two main components are the financial highlights and analysis. While the financial highlights section summarizes significant

Figure 7: Financial Statement Discussion and Analysis Framework

Sources of data: Public Sector Accounting Board, Statement of Recommended Practice 1



events affecting the financial statements, the analysis section includes information that helps the reader understand the full story. This includes, for example, information on significant risks and uncertainties (and the strategies, policies and techniques used to manage them), significant variances between the current year's actual results and the previous year's Budget and actual results, and significant financial trends.

It is important to note that the SORPs do not form part of the PSAB accounting standards, and there is no requirement for the province to adopt them. However, PSAB encourages governments to use this Framework when preparing FSD&As to make public-sector reports more understandable.

While the province has made improvements in its financial-reporting practices, including those that relate to the province's financial condition using financial indicators as suggested in SORP-4, we have reviewed the FSD&A through the lens of the four SORPs and identified a few areas that would further support transparency and accountability.

Robust Variance Analysis on the Statement of Financial Position

All the financial statements are inter-linked and collectively reflect the province's financial health. One financial statement cannot tell a complete story. However, when all financial statements are combined, they provide powerful information for users. Similarly, the variance analysis that provides information on the financial health of the province would be incomplete without a discussion that includes the perspective of all the financial statements.

Over the past few years, we have noted that the FSD&A accompanying the province's financial statements has focused primarily on evaluating the annual revenue and expense results reported in the province's financial statements against the estimates in the Budget and to a lesser extent the previous year's actual results.

We believe that users would be better able to assess the state of the province's finances if a more robust discussion on the statement of financial position was presented in addition to a year over year comparison analysis. This would enhance readers' understanding of the demands on financial resources, and provide them with relevant information about the amount of funds readily available to meet the province's obligations and finance future operations.

Expand on Analysis of Material Risks and Uncertainties

Risks and uncertainties can have significant consequences to the province's economic well-being. FSD&A users need to understand the government's exposure to risk and uncertainties in order to make informed judgments about the implications of such risks. SORP-1 identified the three primary aspects of risks that could be addressed which include identifying the risk, assessing its potential impact and discussing the strategies and techniques adopted for managing the risk.

We realize it is a challenge to present a level of information that makes the report understandable and that enhance accountability, but we believe the FSD&A could expand its reporting of material financial risks and uncertainties.

While some of the reporting is reflected in the financial statements, information could be expanded in the FSD&A to include for example, revenue and expense sensitivities such as the impact of changes in GDP growth on taxation revenues and program expense estimates respectively. Such information would illustrate the impact of changes in the economy on financial results. We noted that prior to 2007/08 the province included this disclosure in its FSD&A.

Given that debt-carrying costs are expected to rise from their current historic lows, a broader discussion of the province's risk-management policies and strategies to address this issue would provide more value to users.

Assessment of Tangible Capital Assets

Tangible capital assets (TCAs) are a major component of the cost of the province's overall operations. Reporting on their physical condition provides important accountability information that helps users assess the government's stewardship of its resources.

PSAB issued *SORP-3 Assessment of Tangible Capital Assets* to provide guidance for those preparing a report on TCAs so that users can understand:

- the trends in the physical condition of TCAs;
- the adequacy of existing maintenance, replacement and renewal funding; and
- the current and future revenues needed to maintain, renew and replace TCAs.

TCAs are the second-largest item on the statement of financial position (after the debt), and they include administrative and service buildings, dams and engineering structures, provincial highways, bridges, hospital equipment, and many other assets.

Investing in infrastructure has been a central pillar of the province's economic plan, including a commitment to invest more than $130 billion in public infrastructure over 10 years.

The financial statements include information on the original cost of the assets and the recognition of this cost over the assets' useful life, and the FSD&A provides examples of several infrastructure projects in which the province invested during the year. We recognize that the financial statements and Annual Report may not be the ideal vehicles to meet the requirements of SORP-3. But, incorporating certain elements of the recommended practice into the province's Annual Report would be useful for users to assess the province's stewardship of these important resources.

We believe that given the importance of TCAs to the province's ability to provide services, supplemental reporting is necessary to fully understand the physical condition of the assets and the potential future cost of maintaining existing infrastructure.

RECOMMENDATION

We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

TREASURY BOARD SECRETARIAT RESPONSE

The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. We appreciate the Auditor General's recommendation to enhance the analysis provided in the Financial Statement Discussion and Analysis section of the Annual Report. We will consider how the suggestions outlined in PSAB's Statements of Recommended Practice might help to enhance the quality of the province's future reporting.

Liability for Contaminated Sites

Contamination is the introduction into the environment of hazardous substances or organisms that exceed an environmental standard. It can come from many different sources, including commercial or industrial activity, waste disposal, and spills or leaks.

Areas of land or water that are affected by contamination, such as hazardous waste or pollution in concentrations that pose health and safety risks, and exceed specific levels under environmental standards, are referred to as contaminated sites. In many cases, these sites were contaminated at a time when environmental impacts of certain activities were not understood or considered.

Remediating a contaminated site refers to actions taken to reverse or stop the damage to the environment and human health. The actions may range from removal of hazardous material to restricting access by, for example, fencing in a site. The ultimate objectives of remediation are to remove the contaminant, minimize the risks to the environment and the public, and allow for future use of the site.

A new standard issued by PSAB, entitled *PS 3260, Liability for Contaminated Sites* (PS 3260), addresses ways to account for, and report on, liabilities associated with contaminated sites, and their remediation. This standard was in effect for the province's fiscal year ending March 31, 2015.

Under PS 3260, a liability for remediation of contaminated sites must be recognized when all of the following criteria have been met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible for or has accepted responsibility for the site;
- it is expected that future economic benefits will be given up to remediate the contamination; and
- a reasonable estimate can be made of the cost of remediation.

The standard calls for governments to calculate their contaminated-site liabilities on a best-estimate basis. All costs directly attributable to remediation, including post-remediation expenses, are to be included in the liability, and the costs to be estimated are those deemed necessary to bring a site up to an appropriate level for use. The total liability is based on the best available information, and is net of any expected recoveries.

The Office of the Provincial Controller Division of Treasury Board Secretariat (Provincial Controller Division) had the lead responsibility for implementing the new standard. Ministries and their consolidated agencies were required to identify, estimate and report to the Provincial Controller Division all liabilities related to contaminated sites in their respective jurisdictions.

The province recognized its liabilities for contaminated sites in accordance with PS 3260 in its March 31, 2015, Consolidated Financial Statements. We concurred with the decision by the Provincial Controller Division to implement this accounting change retroactively as an adjustment to the opening accumulated deficit, with no restatement of financial statements from previous periods. This treatment is supported by PSAB standards.

The resulting implementation of PS 3260 and the recognition of its liability for contaminated sites increased the environmental liabilities recognized in the province's consolidated financial statements by $1.685 billion, from $107.0 million in previous years. The new total liability as at March 31, 2015, was $1.792 billion.

The standard was difficult to implement because estimating environmental liabilities required considerable use of specialists, such as site assessors, engineers and others, to assess the extent of a site's contamination. It took time to establish a complete site inventory, and to populate that inventory with accurate, credible and reliable assessment information to allow for reasonable estimates of future remediation costs.

As expected, the number of sites identified was high, and the potential liabilities large. However, the Provincial Controller Division, working closely with ministries, was able to ensure the standard was implemented effectively and the estimated liability was reasonable.

Chapter 3, **Section 3.10** of this Annual Report describes the work done by the Office of the Provincial Controller Division and key ministry stakeholders to implement PS 3260. Although we detail several of our concerns regarding the precision of the government's liability estimate and the need to improve it over time in that section, we were satisfied with the completeness of the ministries' efforts to identify all high-risk sites and to provide a reasonable estimate of the liability reported under the new standard.

Update on the Workplace Safety and Insurance Board

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by the *Workplace Safety and Insurance Act, 1997* (Act). Its primary purpose is to provide income support and medical assistance to workers injured on the job. The WSIB receives no funding from government; it is financed through premiums on employer payrolls.

Over the past decade, we have raised a number of concerns about significant growth in the WSIB's unfunded liability, which is the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers. Our *2009 Annual Report* discussed the risk that the growth and magnitude of the unfunded liability posed to the WSIB's financial viability, including the ultimate risk of the WSIB being unable to meet its existing and future commitments to provide worker benefits.

We also urged the government to reconsider the exclusion of the WSIB's financial results from the province's consolidated financial statements, particularly if there were any risk that the province might have to provide funding to ensure the WSIB remained viable. The government excludes WSIB's financial results because the WSIB is classified as a "trust"; however, given the WSIB's significant unfunded liability and various other factors, we questioned whether the WSIB was operating like a true trust. Including the WSIB in the government's consolidated financial statements would have a significant impact on the government's fiscal performance.

As of June 30, 2010, the WSIB's unfunded liability had grown to almost $13 billion.

In September 2010, the WSIB announced an independent funding review to obtain advice on how to best ensure the long-term financial viability of Ontario's workplace safety and insurance system. The May 2012 report by Professor Harry Arthurs contained a number of recommendations, in particular calling for a new funding strategy for the WSIB with the following key elements:

- realistic assumptions, including a discount rate based on the best actuarial advice;
- moving the WSIB as quickly as feasible beyond a "tipping point" of a 60% funding Sufficiency Ratio (a tipping point is a crisis in which the WSIB could not generate sufficient funds to pay workers' benefits within a reasonable time frame and by reasonable measures); and
- putting the WSIB on course to achieve a 90%–110% funding Sufficiency Ratio within 20 years.

In response to our concerns and to the recommendations of the Arthurs report, the government passed Regulation 141/12 under the Act in June 2012. Effective January 1, 2013, it required the WSIB to ensure it meets the following funding Sufficiency Ratios by specified dates:

- 60% on or before December 31, 2017;
- 80% on or before December 31, 2022; and
- 100% on or before December 31, 2027.

The government also passed Ontario Regulation 338/13 in 2013. It came into force January 1, 2014, and changed the way the WSIB calculates the funding Sufficiency Ratio by changing the method used to value its assets and liabilities. Our Office concurred with this amendment.

The WSIB issues quarterly Sufficiency Reports and an audited Sufficiency Report to stakeholders annually. As of December 31, 2014, under Regulation 141/12 as amended by Regulation 338/13, the WSIB reported a Sufficiency Ratio of 70.9% (in 2013, the Sufficiency Ratio was 63.0%). This means the WSIB has already achieved its December 31, 2017 funding requirement.

The WSIB also submits an annual update of the Sufficiency Plan to the Ministry of Labour by June 30 of each year, in which it describes the measures taken to improve its funding Sufficiency Ratio. The most recent Plan was dated June 18, 2015, and was formally accepted by the Ministry of Labour on August 25, 2015.

The WSIB's operational and financial performance was strong in 2014, as illustrated in **Figure 8**, which provides a summary of the WSIB's operating results and unfunded liability compared to 2013.

The WSIB's continued strong operating performance in 2014 resulted from growth in premium revenues, improved return-to-work outcomes and better-than-expected investment returns (10.3% versus the target of 6.0%).

However, the WSIB's ability to maintain its current funding Sufficiency Ratio, achieve the 2022 and 2027 prescribed funding Sufficiency Ratios, and continue its strong financial performance remains subject to considerable uncertainty regarding future benefit costs, premium revenues and investment returns.

As a result of the government's and the WSIB's commitments to address the unfunded liability and the progress the WSIB had made so far, we supported the continued classification of the WSIB as a trust for the 2014/15 fiscal year and therefore the exclusion of the unfunded liability from the province's liabilities. However, we will continue to monitor the WSIB's progress on meeting the required funding Sufficiency Ratios and re-evaluate our position as necessary.

Sale of Hydro One Inc. and Hydro One Brampton Networks Inc.

In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One.

The government passed the *Building Ontario Up Act, 2015* (Act) in June 2015 to permit the sale of up to 60% of Hydro One Inc., and announced plans for an initial public offering of about 15% of common shares for the fiscal year ending March 31, 2016.

The Act requires the province, which is currently the sole shareholder of Hydro One, to retain at least 40% of the company's shares. It also stipulates that no other single shareholder can hold more than 10% of the total equity.

Figure 8: Workplace Safety and Insurance Board Operating Results and Unfunded Liability, 2014 and 2013 ($ million)
Source of data: WSIB Financial Statements and WSIB Fourth Quarter 2014 Report to Stakeholders

	2014	2013
Revenue		
Premiums	4,467	4,387
Net investment income	1,927	2,042
	6,394	**6,429**
Expenses		
Benefit costs	2,623	2,856
Loss of Retirement Income Fund contributions	59	62
Administration and other expenses	358	397
Legislated obligations and commitments	276	267
Remeasurement of employee defined benefit plans	296	(840)
	3,612	**2,742**
Total Comprehensive Income	**2,782**	**3,687**
Less: Non-controlling Interests	(242)	(264)
Total Comprehensive Income Attributable to WSIB Stakeholders	**2,540**	**3,423**
Unfunded Liability	**8,098**	**10,638**

Effective December 4, 2015, the Act removes the ability of my Office to conduct or report on value-for-money audits on the operations of Hydro One. As a result, our recent audit of Hydro One's management of electricity transmission and distribution assets, which we began before the Act was tabled, will be our last value-for-money audit on the company.

As of December 4, 2015, we will still have access to Hydro One's accounts and to information to enable us to conduct our annual audit of the province's consolidated financial statements and issue an audit opinion on the province's consolidated financial statements.

The government has also been proceeding with the sale of Hydro One Brampton Networks Inc., expected to bring the province about $607.0 million, net of any price adjustments. The sale is conditional on retiring approximately $193.0 million in debt owed by Hydro One Brampton Networks to Hydro One. In April 2015, the government announced that it had accepted an unsolicited offer by three local distribution companies, Enersource Corporation, Powerstream Holdings Inc. and Horizon Holdings Inc., to merge with Hydro One Brampton Networks.

Hydro One Brampton Networks is a large growing utility with mature operations, operating in a highly regulated environment, and is consistently profitable each year. As a result, it represents a low risk to potential investors, which would likely have attracted strong interest in the utility if it had been offered for sale publicly using a competitive process. However, since the province did not follow an open, competitive and transparent process for the sale of Hydro One Brampton Networks, it is not possible to determine whether it received the highest value when it accepted the unsolicited offer for the sale. Nevertheless, based on information provided to us by Hydro One and the Ministry of Energy, we estimate that the unsolicited $607.0 million offer is a reasonable offer for Hydro One Brampton Networks, and would provide the province with a fair return on its investment. Hydro One has invested $223.0 million in Hydro One Brampton Networks since it was purchased in 2000, and the government will invest another $193 million to retire the debt.

The merger of Hydro One Brampton Networks and the three purchasing utilities will create the second-largest local distribution company in the province by customer size. The Premier's Advisory Council, which recommended accepting the unsolicited offer, noted that consolidation of smaller utilities was favoured to drive efficiencies and resulting benefits to ratepayers.

On August 31, 2015, Hydro One declared a dividend, transferring all its shares in Hydro One Brampton Networks and the $193.0 million debt and $3.0 million accrued interest to the province. The Brampton sale was still in progress as of October 2015 and subject to approval of the Ontario Energy Board and the municipalities that own the other local distribution companies.

Use of Legislated Accounting Standards

PSAB has been largely successful to date in having its standards accepted by federal, territorial and local governments as the basis for the preparation of their financial statements.

However, as standards develop to address increasingly complex transactions—especially if standards have a significant impact on the accounting and measurement of transactions affecting a government's annual deficit, surplus, or net debt—governments are less willing to adopt PSAB standards because of the potential for volatility in annual results.

As discussed in our *2014 Annual Report*, some Canadian governments have begun in certain circumstances to legislate specific accounting treatments rather than applying independently established accounting standards. This includes Ontario, which several times in recent years passed

legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities and its consolidated financial statements.

We reported in 2008 that it was a troubling precedent to adopt accounting practices through legislation rather than through an independent, consultative process such as that of PSAB. Although these legislated accounting treatments have not yet resulted in the province's consolidated financial statements materially departing from PSAB standards, the risk of such a material misstatement in the future has increased. The following is a chronological synopsis of these developments:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allows for the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year, regardless of PSAB accounting standards.
- In the 2009/10 fiscal year, the *Education Act* and the *Financial Administration Act* were amended. The *Education Act* amendments specified that the government could prescribe accounting standards for Ontario School Boards to use in preparing financial statements. The *Financial Administration Act* amendments allow the government to prescribe accounting standards for any public or non-public entity whose financial statements are included in the province's consolidated financial statements.
- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, a fully owned Ontario government business enterprise, to prepare its financial statements in accordance with U.S. generally accepted accounting principles, effective January 1, 2012. The government has since told another fully owned government business enterprise, Ontario Power Generation Inc. (OPG), to do the same. American accounting rules allow rate-regulated entities to defer current expenses for recognition in future years; the government's direction to adopt these U.S. rules came in anticipation of the planned Canadian adoption of International Financial Reporting Standards (IFRSs), which at that time did not allow for such deferrals.
- Ontario government regulations now require transfers for capital acquisitions and transfers of tangible capital assets to be accounted for by transfer recipients as deferred contributions. The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. We have historically supported this accounting because we believe that it best reflects the economic reality of the underlying transactions and complies with generally accepted accounting principles. However, PSAB standards in this area are being interpreted differently by many stakeholders.
- The 2012 Budget further amended the *Financial Administration Act* to provide the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements.

We have raised this issue of legislated accounting treatment on a number of occasions in our previous Annual Reports, but I will continue to raise it because we believe it is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting standards, specifically those of PSAB, in order to maintain its financial credibility.

As the auditor of these statements, I am required to opine on "whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with Canadian public sector accounting standards." If the government reported a deficit or surplus under legislated accounting standards that was materially different than what it would be under

PSAB standards, I would have no choice but to include a reservation in my audit opinion.

Our Office has been able to issue "clean" opinions, without reservations, on the government's financial statements for the last 22 consecutive years. I sincerely hope that this will continue to be the case. As such, I will continue to raise the matter of the risk of legislated accounting treatments in future Annual Reports.

Significant Accounting Issues

As noted previously, it is our view that PSAB standards are the most appropriate for the province to use in preparing its consolidated financial statements. This ensures that information provided by the government about the surplus or the deficit is fair, consistent and comparable to data from previous years, allowing legislators and the public to assess the government's management of the public purse. It is worth noting that Ontario's approved Budget is also prepared on the same basis as its consolidated financial statements.

However, PSAB faces challenges in reaching a consensus among its various stakeholders, including financial statement preparers and auditors, on what accounting standards are most appropriate for the public sector.

We discuss three significant accounting issues (Financial Instruments, Rate-Regulated Accounting and Transfer Payments) that have posed a significant challenge to PSAB over the past few years. Their final accounting-standard determination will affect the way the province accounts for these items, and it will have a significant impact on the province's reported financial results.

Financial Instruments

Financial instruments include provincial debt, and derivatives such as currency swaps and foreign-exchange forward contracts. PSAB's project to develop a new standard for reporting financial instruments began in 2005, with a key issue being whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government's annual surplus or deficit.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments, effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the treatment of government financial instruments, and is similar to comparable private-sector standards.

One of its main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement of remeasurement gains and losses.

Some Canadian jurisdiction preparers, including Ontario, do not support the introduction of these fair-value remeasurements and the recognition of unrealized gains and losses. Ontario's view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings, and that it has both the intention and ability to hold these derivatives until the debts associated with them mature. Accordingly, remeasurement gains and losses on the derivatives and their underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government. The government argues that recording paper gains and losses each year would force the province to inappropriately report the very volatility that the derivatives were acquired to avoid. This, in its view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to governments' concerns, PSAB committed to reviewing the new financial

instruments standard by December 2013. PSAB completed its review of *Section PS 2601, Foreign Currency Translation*, and *Section PS 3450, Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard.

PSAB initially deferred the effective date for these new standards to fiscal years beginning on or after April 1, 2016. In 2015, however, PSAB further extended the effective date for the new standard to April 1, 2019, for senior governments, to allow for further study of reporting options for these complex financial instruments.

We have recommended in the past, and continue to recommend, ongoing dialogue between our Office and the Office of the Provincial Controller to review areas of common concern as PSAB reassesses the standard in preparation for implementing it on April 1, 2019.

Rate-regulated Accounting

Rate-regulated accounting practices were developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated. We have in recent years raised concerns about the appropriateness of recognizing such assets and liabilities in the province's consolidated financial statements.

Rate-regulated accounting is used by two of the province's government-controlled businesses enterprises, Ontario Power Generation Inc. (OPG) and Hydro One, whose rates to customers are approved by the government-established regulator, the Ontario Energy Board.

The regulator often allows the entity to recover certain current costs from the rate payer in future years, and these deferred costs are typically set up under rate-regulated accounting as assets on the entity's statement of financial position. Under normal accounting principles, these costs would be expensed in the year incurred.

We have accepted rate-regulated accounting treatment as allowable under Canadian generally accepted accounting principles, even though we question whether rate-regulated assets should be considered as bona fide assets in the government's consolidated financial statements.

We note that since the government controls both the regulator and the regulated entity, it has significant influence on which costs the entity will recognize in a given year. This could ultimately affect both electricity rates and the annual deficit or surplus reported by the government.

The use of rate-regulated accounting is under review by the International Accounting Standards Board (IASB) and Canada's Accounting Standards Board (AcSB). It is still temporarily allowed in certain circumstances under Canadian generally accepted accounting principles.

The issue goes back to December 2009, when the AcSB required publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. However, a number of rate-regulated entities expressed concerns at the time about the impact of the change on the reporting of their results, as IFRS did not provide guidance on rate-regulated accounting.

With the uncertainty regarding rate-regulated accounting, the Ontario government passed a regulation in 2011 that allowed both OPG and Hydro One to prepare their financial statements in accordance with U.S. generally accepted accounting standards, and subsequently directed them to do so.

These standards specifically require the entities to use rate-regulated accounting. However, OPG and Hydro One are recorded and consolidated in the province's financial statements using Canadian generally accepted accounting principles.

In our previous annual reports, we have observed that the era of rate-regulated accounting appeared to be ending for jurisdictions like Canada, which were converting to IFRS. Our comments were based on the fact that in January 2012, Canada's AcSB reaffirmed that all government business enterprises should prepare their financial statements in accordance with IFRS for fiscal years

beginning on or after January 1, 2012. At that time, no standard specifically addressed rate-regulated activities and so, by default, IFRS standards did not permit rate-regulated accounting.

However, the landscape continued to change. The United States has not adopted IFRS, and continues to allow rate-regulated accounting. In an effort to reconcile U.S. generally accepted accounting principles with IFRS, Canada's AcSB granted a one-year extension in March 2012 to the mandatory IFRS changeover date for entities with qualifying rate-regulated activities. In September 2012, it granted another extension, to January 1, 2014, and extended it again the following year to January 1, 2015.

The IASB issued an interim IFRS standard in January 2014 with an effective date for fiscal years beginning on or after January 1, 2016. The interim standard eased the adoption of IFRS for rate-regulated entities by allowing them to continue to apply existing policies for their deferred rate-regulated balances upon adoption of IFRS starting on January 1, 2015. Essentially, the interim standard provides a first-time adopter of IFRS with relief from having to derecognize their rate-regulated assets and liabilities. It achieves that by allowing s rate-regulated entities to early adopt *IFRS 14 Regulatory Deferral Accounts* until the IASB completes its comprehensive project on accounting for such assets and liabilities.

Rate-regulated accounting has a significant impact on the government's financial statements. For example, OPG recognized $2.8 billion in net rate-regulated assets as of March 31, 2015. Future reporting under IFRS that does not accommodate rate-regulated accounting may increase the volatility of OPG and Hydro One's annual operating results. This in turn could lead to volatility in the province's annual deficit or surplus and may impact the government's revenue and spending decisions.

We noted in our *2014 Annual Report* that if the government continued to direct OPG and Hydro One to use U.S. generally accepted accounting principles (GAAP) in preparing their financial statements, and continues to use the former Canadian generally accepted accounting principles that do not include IFRS to prepare the province's consolidated financial statements, we will need to assess the differences that result from the government not following accounting standards of PSAB and AcSB. These differences will need to be quantified, and if material, we would most likely treat them as errors in the consolidated financial statements.

The effect of OPG and Hydro One not adopting IFRS on January 1, 2015, was determined to be immaterial to the province's March 31, 2015 consolidated financial statements. The reporting periods of OPG and Hydro One differ from those of the province. Changes in their financial reporting as a result of the new standard will be reflected only as of the province's 2015/16 consolidated financial statements.

My Office will work with the Office of the Provincial Controller Division in 2015/16 to plan for changes related to the consolidation of OPG and Hydro One as a result of changes in accounting standards. We will likely be seeking an audit opinion from the external auditors of OPG and Hydro One attesting to the differences between their financial statement results and the financial position under IFRS and U.S. GAAP.

Transfer Payments

PSAB's Government Transfers project began a number of years ago to address several accounting issues related to monetary transfers from one level of government to another, including the following:

- appropriately accounting for multi-year funding provided by one government to another;
- clarifying the authorization needed for transfers to be recognized by both the government making the transfer, and the one receiving it;
- clarifying the degree to which stipulations imposed by a transferring government affect the timing of transfer recognition in the accounts of both the transferring and recipient governments; and

- appropriately accounting for transfers that are to be used to acquire or construct tangible capital assets.

After substantial discussion and the issuing of several documents for comments, PSAB approved a new standard on government transfers in December 2010, effective for fiscal years beginning on or after April 1, 2012.

One of the most difficult areas PSAB had to address in developing the standard was how recipients should account for multi-year transfers. If the federal government makes a lump-sum transfer near the end of a fiscal year to a province to fund services over several years, the question arises as to whether the province should immediately recognize the full amount of the grant as revenue, or recognize the revenue spread out over the years it provides the federally funded services.

A similar issue arises with respect to capital transfers from the province to entities such as school boards and hospitals. A number of stakeholders held the view that capital transfers should be recognized as revenue when the recipient government incurs the expenditures making it eligible to receive the grant. However, other stakeholders held that such transfers should be brought into revenue over time as the tangible capital asset acquired or constructed with the transferred funds is used to provide public services.

The new standard generally recommends that recipients should recognize a government transfer as revenue when it has been authorized and the recipient has met all eligibility criteria. However, this requirement does not apply when the transferring government creates a liability for the recipient government by imposing stipulations on the use of the transfer, or specifies actions the recipient needs to take to keep the transfer.

The standard also specifies that actions and communications by the recipient that restrict the use of transferred funds for a specific purpose can create a liability. To meet PSAB's liability definition, there must be no discretion to avoid it, there must be a future outflow of economic resources to settle it, and it must be the result of past transactions and events. Whether the facts and circumstances surrounding a particular transfer support the recognition of a liability is a matter of professional judgment. If a transfer is deemed to create a liability for the recipient government, the transfer is deferred and recognized as revenue as the liability is settled over time.

As we highlighted in our *2013 Annual Report*, rather than enhancing consistency and comparability in accounting for government transfers, the new standard appears to have created confusion. Its requirements are broad and open to interpretation, resulting in significant differences in its application. This is a concern, because transfers are usually a significant government activity and can have a great impact on reported results. In the 2014/15 fiscal year, Ontario recorded transfer-payment expenses of approximately $50.0 billion and transfer revenue from the federal government of around $22.0 billion.

Many stakeholders had asked PSAB to consider amending the transfers standard because of inconsistencies in interpretation and application. PSAB took the view that more empirical evidence is needed before it will consider amending the standard.

One significant area where consensus has been difficult to reach is accounting for transfers received to fund the acquisition or construction of tangible capital assets. Depending on the circumstances, such transfers might be recognized as revenue when received, when the asset has been acquired or constructed, or over the service life of the asset.

While we acknowledge the controversy over this new standard, we believe that it supports the initial accounting of government transfers and external contributions as deferred capital contributions, with both being recorded as revenue over the useful life of the related tangible capital assets based on transfer stipulations and recipient actions and communications. As such, we agreed with $6.3 billion in deferred capital contributions being recorded in 2014/15 in the province's March 31, 2015,

Consolidated Financial Statements ($5.8 billion in 2013/14).

PSAB is carrying out a post-implementation review of *PS 3410, Government Transfers*, because it is aware of different interpretations and applications of the standard. PSAB hopes this post-implementation review will help it assess implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues. PSAB noted that it will use responses to the review, along with other procedures, to determine next steps in dealing with the interpretation and application of the standard.

In September 2015, PSAB reported that it had considered the preliminary results of the post-implementation review of *PS 3410, Government Transfers*. PSAB also discussed the options for next steps and requested staff to prepare an options paper for its consideration at a meeting scheduled for December 2015.

We look forward to PSAB sharing the results of the review once it has deliberated on its findings and next steps.

Public Sector Accounting Board Initiatives

This section outlines some additional items that PSAB has been studying over the past year that might affect preparation of the province's consolidated financial statements in the future.

Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instill discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible and consistent manner that serves the public interest.

In 2011, PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current revenue and expense definitions, which they contend cause volatility in reported results and distort budget-to-actual comparisons. The task force's objective was to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

The task force's first step was to seek input from stakeholders on the building blocks of the conceptual framework; these will form the basis for evaluating the existing concepts underlying the measurement of financial performance. To this end, the task force has issued two consultation papers: *Characteristics of Public Sector Entities* and *Measuring Financial Performance in Public Sector Financial Statements*. Respondents to these consultation papers were in general agreement with the key proposals.

In March 2015, the task force issued a third consultation paper that proposed a new reporting model and draft principles on public-sector characteristics, financial statement objectives, qualitative characteristics, elements, recognition, measurement and presentation. The task force had asked for comments to be submitted on the third consultation paper by August 31, 2015.

The task force's next step is to develop a statement of principles in the fourth quarter of 2015 that will take into account input received from the three Consultation Papers and propose a revised conceptual framework and reporting model for public-sector entities.

Improvements to Not-for-profit Standards

The Accounting Standards Board (AcSB) and PSAB initiated a joint project in 2011 to improve accounting standards for not-for-profit organizations, including those controlled by the government.

These standards are followed by many organizations funded by the Ontario government.

In April 2013, the Joint Not-for-Profit Task Force established to lead this project issued a statement of principles containing 15 proposals, the most significant of which stipulated that:

- Contributions received would be immediately recognized as revenue, unless the terms of the contribution give rise to an obligation that met the definition of a liability.
- Government not-for-profit organizations would present "net debt" indicators, a statement of net debt as well as budgeted information.
- Government not-for-profit organizations would follow the guidance in CPA Canada's *Public Sector Accounting Handbook* on the capitalization, amortization, write-down and disposal of tangible capital assets.
- Intangibles, works of art and historical treasures (including collections), and economic interests would continue to be recognized in financial statements.

The statement of principles has generated high levels of interest from stakeholders in the public and private not-for-profit sectors because its proposals are expected to have far-reaching implications on the financial statements of not-for-profit organizations. For example, the statement of principles proposes to remove the not-for-profit organization's ability to defer capital contributions and recognize these amounts in revenue on a basis consistent with the amortization recorded on the related tangible capital asset. The statement of principles proposes that capital contributions be recorded in revenue, except in those circumstances where the contribution gives rise to an obligation that meets the definition of a liability.

Many not-for-profit organization stakeholders are concerned that an organization's annual results would be distorted if it is not allowed to follow the traditional accounting practice of deferring capital contributions over the useful life of the related tangible capital asset.

As well, the proposed change will challenge the province's ability to hold its controlled government not-for-profit organizations accountable for balanced budgets in those later years when amortization is recorded on the tangible capital asset for which the capital contribution was recorded in revenue in an earlier period. The AcSB and PSAB received about 300 letters on this topic and are analyzing them in considering next steps.

Asset Retirement Obligations

The objective of this project is to develop a standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. For example, there may be obligations associated with decommissioning an electricity generating facility.

PSAB issued a statement of principles in August 2014 that proposes a new section on retirement obligations associated with tangible capital assets controlled by a public-sector entity. The main features of this statement of principles are as follows:

- A retirement obligation should be recognized when there is a legal, constructive or equitable obligation to incur retirement costs in relation to a tangible capital asset.
- Upon initial recognition, the entity would increase the carrying amount of the related tangible capital asset by the same amount as the liability. Therefore, the initial recognition of an asset retirement obligation will increase net debt reported by a public-sector entity.
- The estimate of a liability for retirement obligation should include costs directly attributable to retirement activities, including post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.
- The carrying amount of the liability for a retirement obligation should be reviewed at each financial reporting date.

- Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense.

PSAB asked stakeholders to submit comments on the statement of principles by November 21, 2014, and is currently examining those comments. It expects to develop an exposure draft in the second quarter of 2016.

Revenue

Two major sources of government revenue—government transfers and tax revenue—are addressed in the sections *PS 3410 Government Transfers* and *PS 3510 Tax Revenues* of the CPA Canada *Public Sector Accounting Handbook* (*Handbook*). However, the *Handbook* does not specifically address other revenues.

In September 2011, PSAB approved an amended project proposal on revenues to address the limited guidance in the *Handbook* on revenues that are common in the public sector. PSAB did not initiate the project to review the existing revenue standards; rather, it aimed to put in place overarching guidance to address questions about when revenues are recognized, and how they are measured and presented in the financial statements.

In August 2013, PSAB issued a Statement of Principles containing proposals that will affect the reporting of a broad range of revenues. The purpose of the project and Statement of Principles is to expose a new Section on revenues that would apply to public-sector entities that follow the *Handbook*.

The Statement of Principles:

- focuses on two main areas of revenue:
  - exchange transactions; and
  - unilateral (non-exchange) transactions
- notes the presence of performance obligations for the public-sector entity as the distinguishing feature of an exchange transaction;
- defines performance obligations as enforceable promises to provide goods or services;
- recognizes that revenue from an exchange transaction constitutes the public-sector entity's meeting a performance obligation;
- recognizes unilateral revenues when there is the authority and a past event that gives rise to a claim of economic resources; and
- allows that revenue is not reduced when collectability is uncertain; instead, a corresponding allowance for doubtful accounts is established for the associated receivable.

The next step in the project is for an exposure draft to be issued in the third quarter of 2016.

Employment Benefits

In December 2014, PSAB approved an Employment Benefits project to improve the existing sections by taking into account changes in the related accounting concepts and new types of pension plans that were developed since the existing sections were issued decades ago.

The project aims to review the existing sections, *PS 3250 Retirement Benefits* and *PS 3255 Post-employment Benefits, Compensated Absences and Termination Benefits*. The first stage of the project will focus on key issues which include, but are not limited to, deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick-leave benefits. The second stage will determine how to account for the new types of pension plans.

The invitation to comment is currently being developed PSAB expects to approve the invitation by March 2016.

Related Party Transactions

PSAB initiated a project in September 2010 with the objective of issuing a new accounting standard that defines a related party in the context of the public sector and describes the measurement and disclosure requirements for related parties and their transactions. Transactions between related parties may not be conducted under the same terms

as transactions between unrelated parties; detailed disclosures allow users to assess the effect of related party transactions on a reporting entity's financial position and financial performance.

Following the publication of several documents for comment, including an exposure draft and a re-exposure draft, PSAB issued a second re-exposure draft for public comment in 2014. This re-exposure draft proposed to create two *Public Sector Accounting Handbook* sections on related party transactions: *Related Party Disclosures and Inter-entity Transactions*.

The objective of the first proposed section, *Related Party Disclosures*, is to define a related party and to provide guidance on disclosing sufficient information about the terms and conditions of related party transactions. The key proposals included in this section are:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control.
- Individuals who are members of key management personnel and close members of their family are included in the definition of related parties; however, the standard would not require disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered. The determination of whether an individual is included in key management personnel requires judgment.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure should include adequate information about the nature of the relationship with related parties involved in transactions, including the types of related party transactions that have been recognized, the amounts of the transactions classified by financial statement category; the basis of measurement used, the amount of the outstanding balances at period end, and the terms and conditions attached to these balances.
- Disclosure is required only when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclose and the level of detail to provide is a matter of judgment.

The purpose of the second section, *Inter-entity Transactions*, is to provide guidance on how to account for transactions that take place between organizations under the common control of a government entity. The most significant proposals are:

- Inter-entity transactions occurring in the normal course of operations and on similar terms and conditions to those adopted if the entities were dealing at arm's length should be recorded at the exchange amount. Transactions in the normal course of a business generally relate to ongoing operating revenues and expenses and do not include the transfer of assets or liabilities.
- Transfers of assets or liabilities between entities are measured based on the amount of the consideration received in exchange:
  - if the consideration received approximates the fair value of the assets or liabilities transferred, the transaction should be measured at the exchange amount;
  - if the consideration received is nominal or nil, the transaction should be measured at the carrying amount by the provider and at the carrying amount or fair value by the recipient; and
  - in all other instances, the transaction should be measured at the carrying amount.
- Allocated costs and recoveries should be measured at the exchange amount.

PSAB accepted feedback on the revised proposals until mid-September 2014. After discussing the responses and the changes proposed by the task force to address the comments, PSAB approved two new *Handbook* sections in December 2014—*Related Party Disclosures* and *Inter-entity Transactions*—and issued them in February 2015. The new standards are to apply to fiscal years beginning on or after April 1, 2017. Early adoption is possible. These sections would be applied prospectively.

Statutory Matters

Under Section 12 of the *Auditor General Act*, the Auditor General is required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, Section 91 of the *Legislative Assembly Act* requires that the Auditor General report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

Legislative Approval of Expenditures

Shortly after presenting its Budget, the government tables detailed Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's planned spending. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the Supply Act is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2015*, which pertained to the fiscal year ended March 31, 2015, received Royal Assent on March 31, 2015.

The Supply Act does not receive Royal Assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so the government usually requires interim spending authority prior to its passage. For the 2014/15 fiscal year, the Legislature passed the *Interim Appropriation for 2014-2015 Act, 2014* (Interim Act). The Interim Act received Royal Assent on July 24, 2014, and authorized the government to incur up to $87.3 billion in public-service expenditures, $2.3 billion in investments, and $135.3 million in legislative office expenditures. The Interim Act was made effective as of April 1, 2014.

The *Interim Act* provided the government with sufficient authority to allow it to incur expenditures from April 1, 2014, to when the *Supply Act, 2015*, received Royal Assent on March 31, 2015. The spending authority provided under the Interim Act was intended to be temporary, and it was repealed when the *Supply Act, 2015*, received Royal Assent. The *Supply Act, 2015*, also increased total authorized expenditures of the legislative offices from $135.3 million to $141 million.

Special Warrants

If the Legislature is not in session, Section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council and approved by the Lieutenant Governor on the recommendation of the government.

For the fiscal year ending March 31, 2015, one Special Warrant totaling $34,668,194,400 was approved by an Order-in-Council dated May 5, 2014. This Special Warrant was required because there was no appropriation by the Legislature for required government expenditures, as the Legislature was not in session. As a result, the Special Warrant allowed ministries and legislative offices to incur expenditures from May 5, 2014, until the Interim Act received Royal Assent on July 24, 2014.

Treasury Board Orders

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the books of the government for the fiscal year are closed. The government considers the books to be closed when any final adjustments arising from our audit have been made and the Public Accounts have been published and tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making program transfers between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction in the amount available under the government's centrally controlled contingency fund.

Figure 9 summarizes the total value of Treasury Board Orders issued for the past five fiscal years, and **Figure 10** summarizes Treasury Board Orders for the fiscal year ended March 31, 2015, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be printed in *The Ontario Gazette*, together with explanatory information. Orders issued for the 2014/15 fiscal year are expected to be published in *The Ontario Gazette* in December 2015. A detailed listing of 2014/15 Treasury Board Orders, showing

Figure 9: Total Value of Treasury Board Orders, 2010/11–2014/15 ($ million)

Source of data: Treasury Board

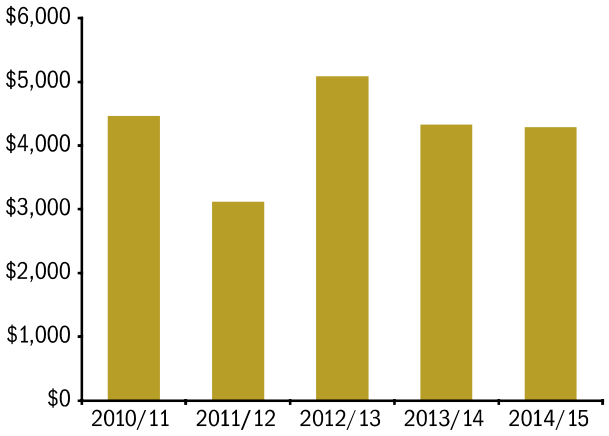


Figure 10: Total Value of Treasury Board Orders by Month Relating to the 2014/15 Fiscal Year

Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2014–February 2015	36	2,753
March 2015	40	1,170
April 2015	4	4
July 2015	1	364
Total	**81**	**4,291**

the amounts authorized and expended, is included as Exhibit 4 of this Annual Report.

Transfers Authorized by the Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, Section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report. Accordingly, **Figure 11** shows the transfers made within Vote 201 with respect to the 2014/15 Estimates.

Uncollectible Accounts

Under Section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

Figure 11: Authorized Transfers Relating to the Office of the Assembly, 2014/15 Fiscal Year

Source of data: Board of Internal Economy

From:		$
Item 10	Members' Office Support Services	(350,000)
To:		
Item 8	Caucus Support Services	350,000

In the 2014/15 fiscal year, receivables of $354.5 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2013/14 was $390.1 million.) The write-offs in the 2014/15 fiscal year related to the following:

- $107.4 million for uncollectible retail sales tax ($146.7 million in 2013/14);
- $101.1 million for uncollectible corporate tax ($104.3 million in 2013/14);
- $59.7 million for uncollectible receivables under the Student Support Program ($68.0 million in 2013/14);
- $20.3 million for uncollectible tobacco tax ($4.4 million in 2013/14);
- $11.8 million for uncollectible receivables under the Ontario Disability Support Program ($8.6 million in 2013/14);
- $7.2 million for uncollectible receivable related to a bankrupt forestry company ($0.1 million in 2013/14)
- $ 47.0 million for other tax and non-tax receivables ($58.0 million in 2013/14).

Volume 2 of the 2014/15 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the preparation of the province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the write-offs had already been expensed in the government's consolidated financial statements. However, the actual write-off in the accounts required Order-in-Council approval.

Standing Committee on Public Accounts

Review of Auditor General's 2015 Annual Report, Chapter 2

October 5, 2016

Deputy Minister Orencsak Opening Remarks

Good afternoon Chair and fellow members of the Public Accounts Committee.

On behalf of myself and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on Chapter 2 of the Auditor General's 2015 Annual Report.

This includes discussion on the province's debt as well as a discussion of the Province's 2014-15 Annual Report and the accompanying Financial Statement Discussion and Analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As members of the Committee will know, we also had the pleasure of joining this Committee last year to discuss Chapter 2 of the Auditor General's 2014 Annual Report.

We look forward to having these discussions with this Committee and to maintaining the positive and collaborative relationship with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in Chapter 2 of her Annual Report last year. During our presentation we will

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update the Committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard-setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public-sector entities.

We all agree on the importance of producing high-quality financial reports, which serve the transparency and accountability needs of the public and the legislature.

When we appeared before the Committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 Annual Report.

Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Thomas Teahan, President and CEO of the Workplace Safety and Insurance Board, who you have invited to appear before the Committee today.

Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahan would be pleased to update you on the board's progress in meeting its sufficiency ratio which has been an interest of the Auditor General over the past several years.

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As I noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results, but also in relation to the government's fiscal planning process.

Since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting, and what the primary users of this information expect from their governments.

I am sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which the Public Sector Accounting Board's accounting standards are set.

In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.*

These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the *Fiscal Transparency and Accountability Act* in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

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At last year's hearing we reported that Ontario had received an 'A' from a 2015 C.D. Howe report, ranking it among the best in the overall quality of its reporting of financial results.

This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of release, our ranking has fallen to an "A-". In other words, it remains very good.

In line with C.D. Howe's position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB's standard for Liability for Contaminated Sites, noted in the Auditor General's Report as a challenge that was successfully navigated.

Staff at the Treasury Board Secretariat have taken steps to enhance the transparency and accountability in the report, and to make the information contained in it more accessible and understandable for the average person.

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Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average person to better understand the trends in balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the Financial Statement Discussion and Analysis section of the government's Annual Report.

Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a non-partisan manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB's Statements of Recommended Practice, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

Ontario's Annual Report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management, and transparency and accountability in public reporting.

As Deputy Minister of Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen the accountability and transparency of the Public Accounts.

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In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high quality public sector reporting for the people of Ontario.

At this point I would like to turn things over to Deputy Thompson to discuss debt management and financial accounting in greater detail.

(turn over to MOF)

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Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 720

Check against delivery

Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government continues to confirm its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

This commitment builds on past success.

The government is achieving these targets by managing program spending growth and by making strategically important financial decisions.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote:

“The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels.”

End quote.

Moody’s outlook on the Province was further confirmed in a report issued earlier this week. It said I quote:

“Ontario’s debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province’s improving fiscal position and conservative debt management policy.”
End quote.

The report also states, quote:

“The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province’s Aa2 rating.”
End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

[Conclusion]

Of course, we can do more. And we will.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority, to discuss the management of the province's debt.

Thank you….Gadi….

Remarks by Gadi Mayman
CEO
Ontario Financing Authority

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 690

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed to reducing the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited

to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[Borrowing Program]

Ontario conducts a robust and responsible borrowing program that protects the public interest.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is the lowest it has been since 1990, and is forecast to remain low through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

Currently, the actual values for Ontario's net interest rate resetting exposure and foreign exchange exposure were 10.6 per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Standing Committee on Public Accounts
Speaking Notes for Tom Teahen
October 5, 2016

Thank you. Good day everyone. I'm Tom Teahen, President and CEO of the WSIB. With me is Pamela Steer, our Chief Financial Officer.

I would like to thank the members of the Standing Committee on Public Accounts for giving me the opportunity to provide an update on the WSIB's progress since the 2015 Auditor General's annual report.

In her report, the Auditor General supported the continued classification of the WSIB as a Trust Agency.

I am pleased to report to the Committee that our strong progress continues, supporting in my submission, the continued Trust status of the WSIB.

Let me say at the outset that the WSIB exists first and foremost to serve workers.

Our legislated mandate is to promote health and safety, to facilitate the return to work and recovery of workers and to provide compensation in a financially responsible and accountable manner.

Accountability ultimately rests in our ability to meet existing and future financial commitments to Ontario's workers and at the same time maintain stable and predictable premium rates.

The 2009 Auditor General report expressed concern that the growth and magnitude of our Unfunded Liability, or UFL, posed significant risk to our ability to meet this commitment.

Today, our situation is very different. I refer the Committee to our 2016 Economic Statement, released on September 14th. It serves as an update on our progress toward retiring our Unfunded Liability, but also highlights our strong progress in improving outcomes for the injured workers we serve.

I will briefly highlight some of our successes in both those areas. Our Unfunded Liability now stands at $5.6 billion, down from $14.2 billion in 2011. Current projections place us on a trajectory to eliminate it by 2021.

Our Sufficiency Ratio is forecasted to reach 85% by the end of this year.

We have determined, after working with key regulatory and financial thought leaders that we should aspire to a funding level between 115 and 125 per cent as our benchmark for being fully funded.

We currently project that we will reach a funding level of approximately 116 per cent by 2025.

In terms of how we compare to other provincial workplace compensation systems, our funding target is in line with most other jurisdictions.

The reason we have set this funding target is because of the injured workers and employers we serve.

It is our responsibility to ensure that a sustainable workplace compensation system exists for generations to come. Simply achieving 100 per cent funding is not enough to ensure workers' benefits are protected and employer premiums are stable and predictable.

A stable system ensures that workers' benefits and employer premiums are shielded from adverse economic conditions and market volatility.

Let me assure you that when the UFL is gone, we will continue to operate in a manner that is financially sustainable – so we can ensure secure benefits and stable premiums.

With respect to improved outcomes for injured workers, we have made significant progress to support safe recovery and return to work.

Currently, 92 per cent of injured workers are safely back on the job within a year of injury with no wage loss.

Our investments in Specialty Clinics and Programs of Care have also led to better outcomes for injured workers by providing faster access to specialized medical care.

In April of this year, we began providing benefits for workers under presumptive Post Traumatic Stress Disorder, or PTSD, legislation. As of September 9th, we had received 468 claims. Going forward, we expect to receive approximately 1,000 per year.

We are currently building a roster of psychiatrists and psychologists across the province to ensure that all of Ontario's workers have access to the support they need.

Our goal is to make Ontario a national leader in the prevention of workplace mental stress issues, including PTSD.

Those are just some of the highlights, both financial and operational, outlined in our 2016 Economic Statement.

In conclusion, I want to emphasize that as President, my message both internally and externally has been clear from the start: It is vital that our organization be seen by one and all – by workers and employers, by government and by the public – as being dedicated to, and defined by, Integrity and Excellence.

Those ideas – those principles – form the very core of our vision and our values.

The goals established in our 2016-2018 Strategic Plan and the priorities which support achieving the plan all align with our commitment to Integrity and Excellence.

These priorities will help us deliver on our duty to provide secure benefits for workers; stable and predictable premiums for employers; and in turn, deliver an essential benefit to the Ontario economy.

Thank you for this opportunity to appear. We would be happy to answer your questions.

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
In order to address the province's growing total debt burden, the government should work toward the development of a long-term total debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its prerecession level of 27%.	The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a plan to invest more than $130-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15. These capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt. One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A report[i] issued in 2015 found that on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term. The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target. The Province is on target to balance its budget in 2017-18. As a result, net debt to GDP is forecast to peak in 2015-16 at 39.6%, remain unchanged in 2016-17 and begin to decline to 38.9% in 2017-18. The Province's track record of beating its deficit targets 7 years in a row has contributed to net debt to GDP ratios that are consistently lower than forecast. For example, the 2014-15 Public Accounts forecasted peak net debt to GDP of 39.9% in 2015-16 declining to 39.3% in 2017-18.	The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

[i] The Economic Benefits of Public Infrastructure Spending in Canada – Broadbent Institute, September 2015

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.	The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. In preparing the Annual Report for the 2015-16 fiscal reporting period, the government reviewed reporting practices of other senior Canadian governments and also referenced recommended practices issued by the Public Sector Accounting Board.	The 2015-16 Public Accounts will be released later this month (i.e. 180 days after fiscal year end) in accordance with legislated timelines under the *Financial Administration Act*. A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including: • An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks. • Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

As of

TBS

Briefing Note

Communications Branch

Logistics for Standing Committee on Public Accounts

Issue:

- Government officials will appear before the Standing Committee on Public Accounts (SCOPA) regarding Chapter 2 of the 2015 Annual Report of the Office of the Auditor General of Ontario.
- Participating officials include:
    - Deputy Minister, Treasury Board Secretariat
    - Deputy Minister, Ministry of Finance
    - Chief Executive Officer, Ontario Financing Authority
    - Assistant Deputy Minister & Provincial Controller (Acting), Office of the Provincial Controller Division
    - President & CEO, WSIB

Agenda Information:

- SCOPA will begin meeting at 9 am in Committee Room 151 (See Appendix A) in the Legislature.
- The Auditor General will brief the Committee in a closed door session at 9 am
- TBS/MOF DM's and other witnesses are expected to appear before SCOPA at 12:30 pm for approximately 2.5 hours.
- The schedule for the afternoon portion will be as follows:
    - **12:30–12:50 pm** – Opening remarks (20 minutes total to be split between three government representatives):
        - DM TBS – 10-12 mins approx
        - DM MOF – 7 mins approx
        - CEO OFA – 5 mins approx

      *WSIB will not provide opening remarks

    - **12:50–1:50 pm** – First round of questions: each of the three political parties get 20 minutes of questions (60 mins total).
    - **1:50–2:45 pm** – Second round of questions: the remaining time until 2:45 pm is split between the three political parties (approximately 15-17 mins for each party totalling 45-50 mins).
    - **2:45–3:00 pm** – Closed session (committee members plus the Clerk only, no audience or presenters). Committee will discuss the outcome of the meeting and if they wish to prepare a report. There are no closing statements from the three gov't representatives.

Room Setup:

- SCOPA will take place in the Amethyst Room, Committee Room 151 (see appendix A).
- Room is equipped with cameras and the meeting will be available on TV's within the Legislature and streamed online.
- The setup of the room will be a square table with additional rows of seating at the front end of the room, closest to the door.
- The Committee Chair and Clerk will sit at the head of the table with the government and opposition parties on opposite sides. (See Appendix A for list of committee members)
- The TBS/MOF DM's and other witnesses will sit opposite the Committee Chair and Clerk.
- For TBS Karen Hughes (TBC), Artur Arruda (TBC), Nadine Petsche, Sofie DiMuzio and Jason Wesley will be present to support TBS DM if needed.

Tone of SCOPA/Media Access:

- A review of past SCOPA Committee Hansard transcripts shows that the vast majority of questions have focused on the audits themselves, the legislative landscape, the policy impact on real people, various processes and costs/cost controls.
- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TV's in the Legislature or online.

Other Information:

- Committee members may substitute members of their party without advance notice.
- If there are any materials that the TBS/MOF DM's or OFA CEO want to distribute to the Committee members, they are asked to bring 25 copies.
- Committee members can request copies of any documents brought into the room. However in reviewing Hansard, TBS Communications did not find any questions/requests to table briefing binders/notes.

Next Steps:

- Finalize briefing binders for October 5 appearance.

Prepared by: Emilie Smith
Senior Corporate Issues Management Analyst
TBS Communications
416-327-2434
September 30, 2016

APPENDIX A:

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, October 5, 2016

Committee Room 151

AGENDA

Public Accounts of the Province
(Chapter 2, 2015 Annual Report of the Office of the Auditor General of Ontario)

9:00 a.m. **Closed Session**
Briefing by the Auditor General

10:00 a.m. Briefing by the Research Officer

10:15 a.m. **RECESS**

12:30 p.m. **Treasury Board Secretariat**
Greg Orencsak, Deputy Minister
Cindy Veinot, Assistant Deputy Minister and Provincial Controller

Ministry of Finance
Scott Thompson, Deputy Minister

Ontario Financing Authority
Gadi Mayman, Chief Executive Officer

Workplace Safety and Insurance Board
Thomas Teahen, President and Chief Executive Officer
Pamela Steer, Chief Financial Officer

Committee discussion on report writing

- SUBJECT TO CHANGE -

About the Standing Committee on Public Accounts

Terms of Reference

As per Standing Order 108(h), the Standing Committee on Public Accounts is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

Committee Members

- Chair
  Ernie Hardeman
  PC / Oxford

- Vice-Chair
  Lisa MacLeod
  PC / Nepean--Carleton

- Members:
  - Chris Ballard
    LIB / Newmarket--Aurora
  - John Fraser
    LIB / Ottawa South
  - Percy Hatfield
    NDP / Windsor--Tecumseh
  - Harinder Malhi
    LIB / Brampton--Springdale
  - Peter Milczyn
    LIB / Etobicoke--Lakeshore
  - Julia Munro
    PC / York--Simcoe
  - Lou Rinaldi
    LIB / Northumberland--Quinte West

- Clerk:
  - Valerie Quioc Lim
    Tel. 416-325-7352
    vquioc@ola.org

2014-15 Public Accounts
General Questions & Answers

Qs & As

(Follow the hyperlinks to questions on each topic)

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HYDRO ONE SALE

Q1. How are you managing the value of government assets?

A1. With the *2014 Budget*, the government began unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

In the Ontario Economic Outlook and Fiscal Review in the fall of 2014, the Province shared the council's initial findings, which it supported. The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The government's actions are unlocking the value of key government assets to generate better returns and revenues for Ontarians. The benefits include helping to expand the economy, boost productivity, improve competitiveness and create jobs for Ontarians.

Q2. Does Ontario have a structural deficit, and are you only able to balance the books by selling off Ontario's assets lock, stock and barrel?

A2. Ontario does not have a structural deficit. Much of the government's expenditures are discretionary. The government's plan for asset optimization is to dedicate any net proceeds, dollar for dollar, from designated asset sales to the Trillium Trust to ensure this money is not funding operational spending at the detriment of our public infrastructure. Over the life of the plan, the government will spend the Trust on new roads, highways, transit and other infrastructure as part of its Moving Ontario Forward plan. This builds on the over $100 billion in infrastructure investments made by the Province since 2003, which have supported an average of 100,000 jobs each year and maintains the government's commitment in maintain the Province's public infrastructure.

BARGAINING AND COMPENSATION

Q3. How are you managing the costs of public sector compensation?

A3. Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Between July 2012 and September 2016, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent) and
- Ontario's private sector (1.9 per cent).

The government has also taken steps to ensure executives at BPS organizations, which include hospitals, school boards, colleges and universities, receive fair but reasonable compensation. The new *Broader Public Sector Executive Compensation Act, 2014*, allows the Province to set sector-specific compensation frameworks. These frameworks will consider all aspects of compensation, including benefits and hard caps on salaries, and will reflect consultation and extensive research.

With significant compliance and enforcement measures, these new frameworks will help achieve better value for money while ensuring BPS organizations can attract and retain talented individuals.

Q4. The government was working in a net-zero bargaining environment but then why was there increases in public sector compensation, such as Teachers, AMAPCEO, Hydro? Is that why the government is now backing away from net-zero?

A4. The government has been clear, in multiple fiscal plans, including in the 2014, 2015 and 2016 Budgets, that compensation costs must be addressed within Ontario's existing fiscal framework. Recent agreements reached with Teachers, AMAPCEO and Hydro One unions are examples of the net zero approach to managing compensation, where modest wage increases were offset through a variety of trade-offs.

Q5. This was the sixth year in a row that you have reported a deficit lower than forecast. It's obvious you are overestimating the deficits. Will you balance the Budget before 2017-18?

A5. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government projected a deficit of $8.5 billion in 2015-16 and reported a deficit of $5.0B, $3.5B ahead of target despite taking a large valuation allowance on pension plan assets of $1.5B. We are confident that our projections of $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18 can be achieved.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

Q6. Does the fact that your deficit was $2.2 billion lower than projected mean you had more money to bring to the table in labour negotiations?

A6. Ontario's $10.3 billion deficit is in line with the $10.9 billion deficit projected in the 2015 Budget so fiscal projections have not fundamentally changed.

It is also important to point out that through the Public Accounts process, the government is reporting on past performance whereas labour negotiations impact future fiscal pressures.

The government is committed to balancing the budget by 2017-18. While there are difficult choices ahead, the government will continue to take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Moving forward, the government is committed to working with public sector bargaining agents in negotiating collective agreements in a manner that considers all relevant factors, including recent macroeconomic and labour market trends.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

TRILLIUM TRUST

Q7. Have the net proceeds from the sale of the GM holdings been dedicated to the Trillium Trust, and how was that being reported in Public Accounts?

A7. The $1.1 billion gain from the sale of the Province's common and preferred GM shares has been dedicated to the Trillium Trust to invest in Moving Ontario Forward. In addition, the Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million GM shares. As a result, the Trillium Trust now has $1.35 billion available for investment in roads, highways, transit and other infrastructure throughout Ontario.

In September 2016, amounts related to disposition of Hydro One Shares of $3.2B have been credited to the Trust bringing the balance to $4.5B available for the investment in public infrastructure.

The revenues allocated to the Trillium Trust are reported as a schedule to Volume 1 in the 2014-15 Public Accounts. The transactions are also disclosed in the Ministry of Finance statements located in Volume 1 of the Public Accounts.

Q8. How did you spend the $1.35 billion dedicated to the Trillium Trust?

A8. The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

INFRASTRUCTURE – MOVING ONTARIO FORWARD

Q9. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.2 billion difference?

A9. Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

Q10. How much did the government spend on Moving Ontario Forward in 2014-15?

A10. Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including initial spending focused on planning, design, property acquisition and other activities to get projects construction-ready but no infrastructure spending has been applied against the Trillium Trust to date. Initial investments include the first intake of the Ontario Community Infrastructure Fund, funding for the Ontario Northland Transportation Commission and investments in provincial highways. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q11. Why weren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

A11. In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

Q12. How does investing in public infrastructure impact the economy?

A12. A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

ONTARIO'S FINANCIAL POSITION

Q13. Is the government on track to balance the budget by 2017-18?
A13. The government remains firmly committed to balancing the budget by 2017-18 in a way that is both fiscally responsible and fair.

The plan to balance set out in the 2015 Budget projected a deficit of $8.5 billion for 2015-16, followed by a $4.8 billion deficit in 2016-17 and a return to balance the following year.

The government will balance the budget through:

- Program Review, Renewal and Transformation;
- continuing to manage compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability

The Province's plan to balance the budget builds on past success: in each fiscal year between 2010-11 and 2014-15, the government beat its annual deficit target.

The government plans to balance the budget while continuing to make the investments that create jobs, expand opportunities and enhance prosperity for all Ontarians, which were outlined in the most recent budget.

That includes investing in people's talents and skills, building new public infrastructure like roads and transit, creating a dynamic, innovative environment where business thrives, and building a secure retirement savings plan.

Q14. Did you use your reserve to pad your fiscal results?

A14. For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance. The 2014 Budget plan included a $1.0 billion reserve. The reserve does not affect the actual deficit result of $10.3 billion and is only a budgeted amount for variability in results.

Q15. Ontario is still expected to be the last Canadian jurisdiction to return to balance. What are we doing wrong?

A15. Ontario has the lowest per-capita program spending among provinces. Ontario also has the lowest total government revenue per person among all Canadian provinces, including funding from federal transfers.

The government remains firmly committed to balancing the budget by 2017–18.
The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared with the 2014 Budget forecast. This marks the sixth year in a row Ontario has beaten its annual deficit target making the province one of the few governments in Canada to achieve this level of success.

As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic

and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q16. Standard & Poor's downgraded the Province's credit rating from double-A-negative to A-plus because of a combination of "very high debt burden" and "very weak budgetary performance". What is the government doing to manage the debt?

A16. The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared to the 2014 Budget. This marks the sixth year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management. As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q17. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

A17. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation;
- managing compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability.

Q18. How much did government spend in 2014-15?

A18. Total spending for 2014-15 was $128.8 billion, against a planned $130.4 billion. This reflected savings across ministries and their agencies, as well as a lower-than-projected interest expense.

Over the past four years the Province has held average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while continuing to invest in priorities like infrastructure and services like health care and education.

Q19. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

A19. The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2015–16, and has been set at $1.2 billion in each of 2016–17 and 2017–18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

BUDGET SURPLUS and REVENUE INCREASE

Q20. Can you explain the $29 million increase in revenue since your 2015 Budget?

A20. The modest $29 million improvement in revenues is largely due to higher net income of government enterprises like the OPG as well as revenues from other non-tax revenues such as sales, rentals and royalties

These higher revenues were largely offset by lower Taxation Revenues and Federal Payments.

Q21. How did net income from government business enterprises increase by $589 million from your 2014 Budget projection?

A21. This increase was mostly due to OPG's lower operating costs and better market performance of its nuclear funds.

CONTINGECY FUND / RESERVE

Q22. What is the difference between the contingency fund and the reserve?

A22. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events or program pressures (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance.

BUDGET PROJECTIONS vs PUBLIC ACCOUNTS REPORTING

Q23. What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A23. Taxation revenues were $1.1 billion lower due largely to lower corporations' tax revenue ($0.7 billion) and lower sales tax revenue (-$0.2 billion).

Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.

Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

Q24. Why did Ontario's net debt increase by $17.4 billion in 2014-15?

A24. Net debt is the province's total debt and other liabilities, minus its financial assets, including cash and investments. The increase in net debt is primarily due to the deficit, and significant investments in infrastructure. Ontario's net debt-to-GDP is levelling off and the government continues to maintain a target of reducing the ratio to its pre-recession level of 27 per cent. Upon achieving balance in 2017-18, increases in net debt will be limited to borrowing for investments in capital infrastructure.

Q25. How do you explain the $19.2 billion increase in total debt in 2014-15?

A25. The increase in total debt is primarily due to the deficit and significant investments in infrastructure in 2014-15.

Background: Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets, such as Ontario's cash reserves and investments, loans receivables, and investments in Government Business Enterprises (e.g. LCBO, OLGC). Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q26. Why was the interest on debt for 2014-15 $375 million lower than forecast in the 2014 Budget?

A26. Interest on debt is lower primarily because of:

- lower than forecast interest rates
- cost-effective debt management
- a one-time gain from the sale of asset-backed commercial paper that was written down in prior fiscal years.

Q27. Why was interest on debt for 2014-15 $63 million higher than in 2013-14?

A27. The Province pays interest on its total debt. Total debt increased in 2014-15 by $19.2 billion as a result of the deficit and investments in infrastructure causing interest on debt to also increase by $63 million when compared to the previous fiscal year.

Q28. You spent $1.6 billion less than you budgeted for programs. With all the problems facing the Province, aren't you just denying badly needed services to Ontarians?

A28. Ontario's path to a balanced budget is focused on improving the quality of life of all Ontarians. As always, the government must manage its limited resources in a way that is efficient and effective. This means doing some things differently. For example, since launching Ontario's Action Plan for Health Care in January 2012, the government has moved forward in transforming health care in the province from a fragmented system with rising costs, to a system focused on better access, quality and value for all Ontarians. The government has reduced growth in health care spending to about two per cent annually from about six to seven per cent per year, significantly bending the health care cost curve while continuing to improve.

An efficient and effective health care system must be forward looking and anticipate rather than react —based on evidence —so that health care interventions are smart, targeted and effective. Putting the needs of people and patients first will help improve patient outcomes and make the best use of every dollar spent.

Managing growth in spending underpins the government's commitment to achieving a balanced budget by 2017-18. Achieving balance requires a relentless focus on finding smarter, better ways to deliver the best possible value for every dollar we spend.
For example, in the education sector, the School Board Efficiencies and Modernization strategy is helping school boards reduce the costs of managing underutilized school space by consolidating schools, sharing space with other boards and fostering community partnerships.

From an across-government perspective, ministries are working together to better deliver services to people. At the same time, the Province is making tough choices to transform or wind down programs that are not performing, do not link to government priorities or no longer clearly serve the public interest.

While the government continues to invest in priority areas and implement its plan to support economic growth and prosperity, it is also committed to managing program expense growth over the medium term to support a balanced and thoughtful approach to eliminating the deficit.

PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Q29. How are you reviewing and transforming government programs?

A29. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

PRRT is focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs. [2016 Budget, p. 181].

Q30. Has PRRT achieved any tangible results/savings?

A30. The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services;
- Finding internal efficiencies in information technology data centre, desktop and service management operations;
- Modernizing the delivery of natural resources management programs;
- Restraining compensation growth in line with the government's "net zero" policy;
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits;
- Modernizing programs delivered through ServiceOntario;
- Reducing the government's office footprint;
- Getting better value for money invested in health care programs and services.

Examples of Successful Transformation Initiatives [from the 2015 Budget, p. 204]

The government has a strong track record of successfully transforming public services by improving outcomes and managing costs. Examples include:

- Moving from a provider-based to a patient-based health care funding model, which includes updating and rebalancing some OHIP fees to reflect advances in technology and applying the best medical evidence on patient outcomes. Government reform of the Provincial drug program has resulted in savings of $500 million per year.
- Transforming the youth justice system by diverting lower-risk youth in conflict with the law to community-based programs. Expanding rehabilitation programs for approximately 11,000 youth per year has both reduced the risk of reoffending and allowed the government to shut down or repurpose many youth detention centres. Key achievements between 2003 and 2013 include a drop in the number of youth in secure custody from over 1,000 to fewer than 400, and a 43 per cent decrease in the youth crime rate.
- Working with municipalities to allow for localized administration of programs for the homeless so that programs respond better to the needs of the families and individuals involved. This is being done through the Community Homelessness Prevention Initiative, which combines funding from five formerly separate housing and homelessness programs into a single, flexible and locally coordinated program. For further information, see Chapter I, Section F: *A Fair Society*.

In addition, the government is moving forward with opportunities that improve efficiency, reduce overlap across government programs, and ensure that government works better for Ontarians, including:

- Reducing the costs associated with managing under-utilized school space by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.
- Better targeting funding through business support programs, such as the Ontario Interactive Digital Media Tax Credit. Changes proposed in the 2015 Budget include realigning funding from an open-ended tax credit to a grant program, which will improve effectiveness.

Q31. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

A31. The government is committed to protecting the public services that matter the most to Ontarians. This is why it is not making across the board cuts. Instead, the government is using PRRT to balance the budget by carefully and thoughtfully examining how every government dollar is spent while taking outcomes into account.

Q32. Why was the 2014-15 program review savings target of $250 million so much smaller than the $1.1 billion year-end savings target?

A32. The 2014 Budget included a year-end savings target of $1.1 billion for 2014-15. As in past years, the year-end saving provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project start-ups and implementation plans.

The 2014 Budget also included a program review savings target of $250 million in 2014-15. The target was established with a focus on maintaining or enhancing the delivery of public services while reducing costs that are not essential to delivering services.

The $250 million target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

For example, the Ministry of Health and Long Term Care negotiated lower prices for goods and services, achieving savings of approximately $40 million through lower contract costs for vaccines and telehealth services. [See Q.30 for other examples.]

GOVERNMENT ADVERTISING ACT

Q33.What are you doing to ban partisan advertising before an election (Bill 201)?

A33. Although the Government Advertising Act already requires that all government advertising be non-partisan as defined in the Act, it is important to avoid even a perception that the government's advertising might be able to influence an election campaign.

The government brought forward amendments to Bill 201 to extend the time period during which government advertising would be restricted with limited exceptions.

These amendments would, if passed, extend the existing restrictions on government advertising in the Government Advertising Act for a period of 60 days prior to the drop of the writ for a scheduled general election.

Governments have ongoing obligations to communicate with citizens on a range of issues including public health warnings, emergency preparedness, access to identification documents (i.e., health cards, birth certificates, etc.) and public education on civic responsibilities (i.e., submitting taxes, etc.)

If asked about proposed changes to the Election Finances Act:

The Ontario government has also committed to enhance the fairness and integrity of the election system as part of its plan to build a fairer and more inclusive Ontario.

Proposed amendments to the Election Finances Act were introduced by Minister Naqvi, the Government House Leader, on May 17, 2016. Bill 201 was considered in committee and has been reported to the Legislature for Second Reading.

The government's goal is to have reforms in place by January 1, 2017.

Flagship elements include:

- Banning union and corporate donations;
- Reducing individual contribution limits;
- Regulation of pre-writ advertising spending by third parties and political parties; and,
- Spending limits on third-party advertising during election campaigns.

Further questions should be directed to the Government House Leader.

Q 34. The Auditor General has said the Government Advertising Act is not living up to its intended purpose. How do you respond?

A 34. Ontario is still the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

As part of the 2015 Budget, the government modernized the *Government Advertising Act* and broadened the Auditor General's mandate to cover digital advertising as well as transit ads and movie theatre ads.

The Office of the Auditor General continues to have oversight of government advertising, to ensure that an independent third party confirms that the standards of the Act have been met.

Friendly Questions (MOF)

1. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 39.4 per cent. This improvement is a direct result of better than forecast deficits.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last seven years. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

2. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 27 per cent lower, at 8.5 cents of interest costs for every dollar of revenue. This ratio is the lowest it has been in 25 fiscal years or since 1990-91, and is forecast to remain low through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the

weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3 years as of September 30.

3. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, 2015-16 is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

4. Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue.

This ratio is the lowest it has been since 1990-91, and is forecast to remain low through the outlook period in 2018–19.

5. Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

Friendly Questions (TBS)

6. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. Ontario has consistently scored top marks in the C.D. Howe Institute's evaluation of senior government financial reporting transparency and fiscal accountability. For the past several years, Ontario has earned an "A" on overall measures. The Institute's latest report included some new measures, which caused Ontario's rank to fall to "A-." The results differ from those in previous iterations of the report because of modifications in the Institute's grading system as well as changes in the financial reports themselves.

The Institute noted that Ontario's presentation of its consolidated financial statements was a key strength when compared to other jurisdictions. Further, the Institute ranked Ontario first overall regarding the accuracy of its budgeted spending forecasts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. How does the Financial Statement Discussion and Analysis meet the best practices recommended by Public Sector Accounting Board?

A.: In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.* The two pieces of legislation work together to ensure a principled financial management framework for Ontario.

In addition, the government has taken steps to enhance transparency and accountability and to make the information more accessible and understandable for the average person. We've used data visualization in the past, and this year we are supplementing the information with more online tools and graphics. This means the average person is better able to understand the trends in balance sheet and operating activities in the last five years. It also means a person can more search through the data more easily.

We've also made improvements after a recommendation by the Auditor General about the Financial Statement Discussion and Analysis section of the government's Annual Report.

We've changed the format and layout of this section to ensure it's presenting the province's key financial facts in a non-partisan manner.

Expanding beyond the Auditor General's recommendations, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

8. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs
- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

9. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18.

By continuing to beat our fiscal targets, and through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

10. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

11. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

12. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

Friendly Questions (WSIB)

13. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might

have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where the province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Following the 2009 report of the Auditor General, the government took steps to amend the *WSIA* to confirm the independence of the WSIB and reinforce its Trust status.

14. What progress has the WSIB made on its target to be fully funded by 2027?

A. Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. Our Sufficiency Ratio is forecasted to reach 85% by the end of the year, compared with 54.2% (funding ratio) in 2009.

The UFL is being reduced ahead of schedule - from a peak of $14.2 billion in 2011, the UFL has now been brought down to $5.6 billion (sufficiency basis) in 2016 (Q2).

We have updated our funding trajectory as part of our 2016 economic statement and we expect to reach 100% sufficiency by 2021, six years ahead of the legislated requirement.

Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

Increased premium revenue from employers that was collected specifically to decrease the UFL.

Higher investment returns than long-term targets.

Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.

Improved recovery and return-to-work results – achieved through the WSIB's health care and return-to-work initiatives, along with more efficiency in the claims management process.

15. Can you please give us an update on the status of the WSIB review of its long term financial viability?

A. Long-term viability is about getting to a funding level which will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability for employers.

In order to moderate the risk of any future UFL in the event of economic shocks, the WSIB plans to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding. This target was determined by examining the Office of the Superintendent of Financial Institutions (OSFI) guidelines and funding levels maintained by other workplace compensation boards.

The WSIB's current estimated trajectory shows us reaching full funding (115%) by 2025 while offering premium rate reductions of 5% in each of 2017, 2018 and 2019. Projections also include potential rate reductions of 15-20% between 2023 and 2027.

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive Post Traumatic Stress Disorder (PTSD) legislation, indexation of partial benefits), invest in our systems to improve service, and lower premium rates.

2015-16 Public Accounts
General Questions & Answers

Qs & As

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2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

KEY MESSAGES

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

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

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However the government remains optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

TOP QUESTIONS

Q1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

A1. This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

The government believes that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The government will ensure that the task force is made aware of this area of difference in interpretation.

In addition, the government will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The government will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q2. Why did the government release its financial statements without the Auditor approving them?

A2. This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference interpretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government released its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

A3. No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A4. A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the government has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

Q5. Is the Auditor General misinterpreting Public Sector Accounting Board standards?

A5. The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months the government will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

A6. According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

A7. The government only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q8. If the government things its right, why would the government change the numbers?

A8. To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized.

Q9. Was there something wrong with the accounting rules that the government was using before?

A9. No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

Q10. Why hasn't the Auditor General raised this with you in the past two years?

A10. I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

Q11. So what happens next? When will you table the actual Public Accounts?

A11. The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

A12. Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

Standing Committee on Public Accounts
Wednesday, November 4th 2015

Questions from Committee Members on AG's 2014 Annual Report

Progressive Conservative Party Questions/Comments/Issues

Based on the Financial Accountability Officer's report:

- The government claims that it will be in balance in 2017-18, but the FAO claimed that the government will still be in deficit of up to $3.5 billion
- Hydro sale will come with an initial income boost, but government will lose income over the longer term
- How will the government get to balance if the economy is slowing and a credit rating decrease will increase the cost of borrowing?
- How will the government get to balance – will it be raising revenues by increasing taxes; getting more money from the federal government; cutbacks and/or layoffs? or asset sales?

In terms of debt reduction (the net debt to GDP target) – how close is the government to achieving this and what is the plan?

If growth is slower, leading to reduced revenues – does the government rejig projections? How does the government make up for lost revenue – by increasing the land transfer tax or implementing a carbon tax?

What is the contribution to the economy of investing in capital assets?

When the government funds capital assets at the municipal level, the municipality still needs to pay for operating costs for the asset. How does that figure into the overall growing of the economy?

What is the impact of selling capital assets on the economy?

**There was a question on the loss of revenue from ORPP contributions and one on split pensions, but a government member suggested that they were not in order because they were not covered in Public Accounts.

New Democratic Party Questions/Comments/Issues

What is the impact of the hydro sell-off on net-debt-to-total-annual-revenue ratio?

$900 million in revenue came from Ontario Hydro and Ontario Power Generation. How much came from each company?

Has Hydro One traditionally brought in more revenue than forecasted?

Why has the stranded debt not been paid off when it was originally $7.8 billion and the government has collected $11.5 billion?

The stranded debt charge that business pay is supposed to end in 2018. Will it continue to drop so that business does not have to pay after 2018?

Will there be forecasted targets for the debt retirement charge to drop in 2016, 2017 and 2018?

How will the sale of Hydro One and the loss of its revenues ($500 million/year) affect the net-debt-to-total-annual-revenue ratio?

With the increase in the federal debt, will investors still want to buy Ontario debt? What happens if the demand for Ontario debt shrinks?

Program expenses are less – what was cut to achieve this?

Liberal Party Questions/Comments/Issues

What is the forecasted net-debt-to-GDP? Why is this important? What is the effect on the commitment to balance in 2017-18?

What is the material impact of the S&P downgrade on the province's finances?

The government is lucky that interest rates are low. Discuss the prudent measures taken by the government to manage the debt and to mitigate the risk of increased interest rates.

Discuss the uncertainties about the transfers from the federal government.

Provide an update on the Pension Benefit Guarantee Fund.

What is the impact of the infrastructure investments on the economy?

Why is it important that the government beats its deficit reduction target?

Can you talk more about how the government is controlling spending and reviewing spending through the program renewal, review and transformation?

August 30, 2016

ONTARIO'S CREDIT RATINGS

What is the status of Ontario's credit ratings?

SUGGESTED RESPONSE

- **The Financial Accountability Office (FAO) has released a commentary "Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance."**
    - **According to the FAO "the credit agencies' affirmation of Ontario's credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency's rating methodology differs slightly, they all believe that Ontario's debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.**
- **Ontario has always valued the input of third-party analysis as an important checkpoint in ensuring that our fiscal plan is credible, reliable and transparent.**
- **Ontario's credit ratings are:**
    - **Moody's: Aa2**
    - **DBRS: AA (low)**
    - **Fitch: AA-**
    - **Standard and Poor's: A+**
- **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19. In 2015-16, Ontario is once again projected to beat its deficit target for the seventh year in a row. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.**
- **We will continue to reduce the deficit through a fair and balanced approach. The 2016 budget is focused on strategic investments that stimulate economic growth and job creation including investing over $160 billion in infrastructure projects across the province over the next 12 years. Even with these investments, our government has the lowest program spending per capita of any province in Canada.**

- **Furthermore, between 2010-11 and 2014-15, our government has held program expense growth to an average annual rate of 1.4 per cent, while still supporting the vital public services that Ontarians rely on, like health care, education and social services. We have achieved this by finding new and more efficient ways to deliver the best value for Ontarians.**

BACKGROUND

FAO Commentary on Credit Rating Agencies

On August 30, 2016, the Financial Accountability Officer released a commentary titled “Credit Rating Agencies Satisfied with Ontario’s Progress to Fiscal Balance”.

According to the FAO, the credit agencies’ affirmation of Ontario’s credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency’s rating methodology differs slightly, they all believe that Ontario’s debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.

This consensus view of the rating agencies is consistent with the FAO’s own analysis, which concluded that the Province should be able to achieve fiscal balance in 2017-18 and that Ontario’s debt-to-GDP ratio would decline modestly over the next five years.

According to the FAO, the rating agencies generally assume that the Province will maintain fiscal balance , beyond 2017-18 based on its ability to restrain expenditure growth and increase revenues as required. However, the FAO notes that the agencies all expect that the Province will be “challenged” to maintain expenditure restraint indefinitely, given mounting spending pressures.

The FAO notes that the agencies continue to emphasize that the Province’s relatively high debt burden compared to other provinces and international peers, remains a key weakness for Ontario’s credit outlook. Indeed, Ontario’s relatively high debt burden was an important determinant behind both Fitch and S&P’s decision to downgrade the Province’s credit rating in December 2014 and July 2015.

According to the FAO, if Ontario’s fiscal balance were to return to deficit beyond 2017-18, either through an easing of expenditure management restraint or through unexpected weakness in revenues (as a result of slower than expected economic growth), the agencies would be expected to revise Ontario’s credit outlook to negative followed by a potential credit rating downgrade. A credit rating downgrade could lead to higher borrowing costs for Ontario and a more difficult fiscal position.

Fitch

The tabled budget for fiscal 2017 follows the province’s plan to eliminate its annual budget deficits by fiscal 2018. Despite an uptick in the annual deficit in fiscal 2014, the province has recorded two successive years of declines since then and Fitch believes it remains on track to achieve its target assuming continued economic growth.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives.

Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

S&P

The stable outlook reflects expectations that the province's liquidity will continue to be average in the next two years, real GDP growth will be above 2% and operating revenue growth will lead to operating surpluses beginning in fiscal 2017.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

According to S&P, the debt burden should continue to decline, reaching below 240% of projected consolidated operating revenues by fiscal 2019.

Near-balanced after-capital results and continuing declines in Ontario's tax-supported debt burden could result in a positive outlook or upgrade.

DBRS

The trend remains Stable, supported by the Province's continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook.

A positive rating action, appears highly unlikely over the medium term, as it would require improvements in fiscal performance on a sustained basis to reduce debt to a level more commensurate with the AA-range rating.

Alternatively, although not anticipated by DBRS in the current environment, a negative rating action could result from a relaxation in fiscal discipline, or an unforeseen economic shock that leads to deteriorating fiscal performance and rising debt.

Moody's

The stable outlook reflects Moody's view that the province's debt burden will continue to modestly improve as the province moves towards balanced budgets and therefore reduces its annual financing requirements.

With the return to balanced budgets on the horizon, aided by continued expenditure control and increasing revenues, the debt burden is expected to show slight improvements over the medium-term as annual financing requirements decrease.

Although the province forecasts only thin surpluses in the years immediately following the planned return to balance in 2017/18,Ontario has included some contingencies to help ensure it achieves its fiscal targets and therefore reduce the likelihood of incurring further deficits.

The current low interest rate environment has enabled the province to extend the maturity of its debt profile and issue long-term debt bearing historically low coupons which has also kept debt service low and manageable.

The province's large and diversified economy and growing population provides access to a broad and productive tax base and, as such, remains a source of credit strength.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Negative Outlook removed on April 26, 2016
DBRS	AA (low)	R-1 (mid)	Confirmed, May 20, 2016
Fitch	AA-	F1+	Confirmed June 22, 2016
S&P	A+	A-1+	Confirmed June 1, 2016

Ontario's Long-Term Credit Rating History 1990-2016

Year	S&P	Moody's	DBRS	Fitch
2016	A+	Aa2	AA (low)	AA-
2015	A+	Aa2 (N)	AA (low)	AA-
2014	AA- (N)	Aa2 (N)	AA (low)	AA-
2013	AA- (N)	Aa2	AA (low)	AA (N)
2012	AA- (N)	Aa2	AA (low)	AA (N)
2011	AA-	Aa1 (N)	AA (low)	AA (N)
2010	AA-	Aa1	AA (low)	AA
2009	AA-	Aa1	AA (low)	AA
2008	AA	Aa1	AA	AA
2007	AA	Aa1	AA	AA
2006	AA	Aa1	AA	
2005	AA	Aa2	AA	
2004	AA	Aa2	AA (N)	
2003	AA	Aa2	AA	
2002	AA	Aa2	AA	

2001	AA	Aa3 (P)	AA	
2000	AA- (P)	Aa3	AA(low) (P)	
1999	AA-	Aa3	AA(low)	
1998	AA-	Aa3	A(high)	
1997	AA-	Aa3	A(high)	
1996	AA-	Aa3	A(high)	
1995	AA-	Aa3	A(high)	
1994	AA-	Aa3	A(high)	
1993	AA-	Aa2	A(high)	
1992	AA (N)	Aa2	AA(low) (CW-N)	
1991	AA+ (N)	Aa2	AA(low)	
1990	AAA	Aaa	AA	

Provincial Rating Comparison

Province	**S&P**	**Moody's**	**DBRS**	**Fitch**
Canada	AAA	Aaa	AAA	AAA
Ontario	**A+**	**Aa2**	**AA (low)**	**AA-**
British Columbia	AAA	Aaa	AA (high)	AAA
Saskatchewan	AA+ (N)	Aaa	AA	AA
Alberta	AA (N)	Aa1 (N)	AA (high)	Not Rated
Manitoba	AA-(N)	Aa2	A (high)	Not Rated
New Brunswick	A+	Aa2	A (high)	Not Rated
Northwest Territories	Not Rated	Aa1	Not Rated	Not Rated
Quebec	A+(P)	Aa2	A (high)	AA-
Nova Scotia	A+	Aa2	A (high)	Not Rated
PEI	A	Aa2	A (low)	Not Rated

Newfoundland & Labrador	A (N)	Aa3 (N)	A (low)	Not Rated

Agency Rating Scale

Rating	S&P	Moody's	DBRS	Fitch	Definition
Triple A	AAA	Aaa	AAA	AAA	Highest rating possible; capacity to pay interest and repay principal extremely strong.
Double A	AA+	Aa1	AA (high)	AA+	Has a very strong capacity to pay interest and principal and differs from triple A only in a small degree.
	AA	Aa2	AA	AA	
	AA-	Aa3	AA (low)	AA-	
Single A	A+	A1	A (high)	A+	Has a strong capacity to pay interest and principal, but more susceptible to adverse developments than higher rated categories.
	A	A2	A	A	
	A-	A3	A (low)	A-	

Ontario's ratings

Prepared by: Bonnie Lemcke, 416 325 8170
Ontario Financing Authority
Date Prepared: August 19, 2016

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain unchanged in 2016–17, and begin to decline in 2017–18.**

- **We will maintain a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.**

- **The first very important step in returning the net debt-to-GDP ratio to its pre-recessionary levels is to balance the budget in 2017-18.**

    - **Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets.**
        - **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.**
        - **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.**
    - **Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.**

    - **With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.**

    - **Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.**

Borrowing Program

- **Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year.**

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

- **Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009-10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. We are consistently making strategic and prudent decisions that will benefit the Ontario economy and ensure fiscal security.**

CURRENT STATUS

FAO Commentary on Ontario's Provincial Debt

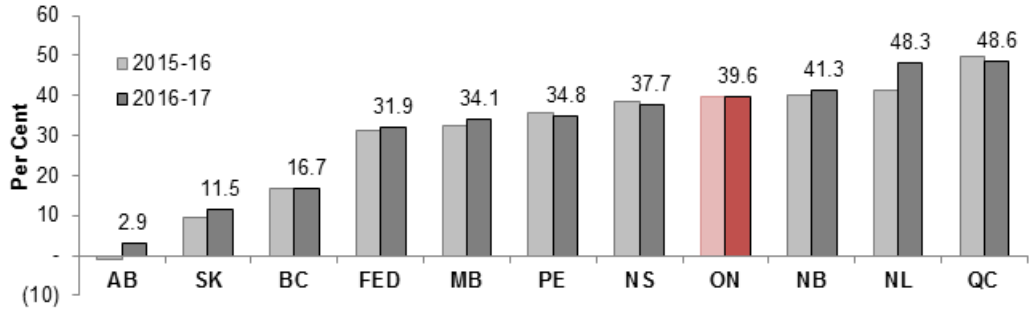
On July 19th, the Financial Accountability Officer released a commentary on Ontario's Provincial Debt, the commentary's key messages were as follows:

- The Government of Ontario's debt burden is one of the highest among provincial governments in Canada

    - Response: The FAO's commentary is based on data from 2014-15. Using more recent information, Ontario's net debt-to-GDP ratio ranks 4th after Quebec, Newfoundland & Labrador and New Brunswick in 2015-16.

    - Ontario's net debt as a share of GDP is projected to remain at 39.6 per cent through 2015-16 and into 2016-17.

Projected Net Debt-to-GDP Ratio by Jurisdiction, 2015-16 and 2016-17



Source: Budgets. Updates and 2014-15 Public Accounts; Conference Board of Canada (May 2016 GDP figures)
Note: For all Figures, accounting standards vary between jurisdictions and within jurisdictions across years. Values may not be directly comparable due to accounting differences across provinces. Federal net debt reflects accumulated debt to match federal public reporting. Data labels correspond to the net debt to GDP ratio for the 2016-17 fiscal year.

- The Province's market debt consists of publicly held bonds, treasury bills, and US commercial paper issued in Canadian dollars and foreign currencies. The effective interest rate on the publicly held debt is 3.6 per cent.

    - Response: Going back to the beginning of fiscal 2010–11,the Province has issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009–10.

- There is uncertainty surrounding the future level of interest rates due to market fluctuations and Ontario's credit risk. All else equal, an increase in interest rates would lead to higher interest payments, which would reduce the Province's fiscal flexibility.

- Response: Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections.
- Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.

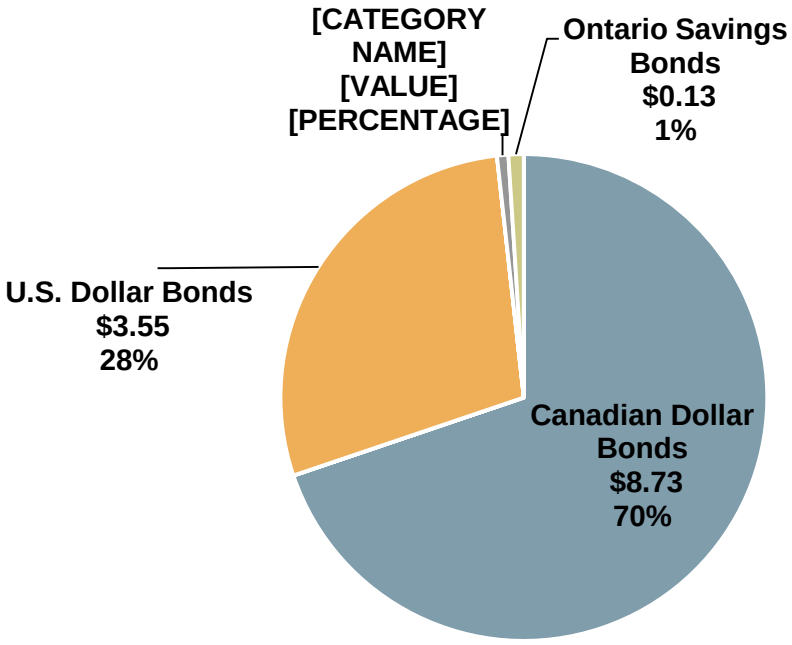
Borrowing Program

Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies through U.S. dollar global bonds, and Australian dollar Kangaroo bonds.

Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario spreads relative to Canada have fallen since the 2016 Ontario Budget.

2016–17 Borrowing Completed: $12.5 billion

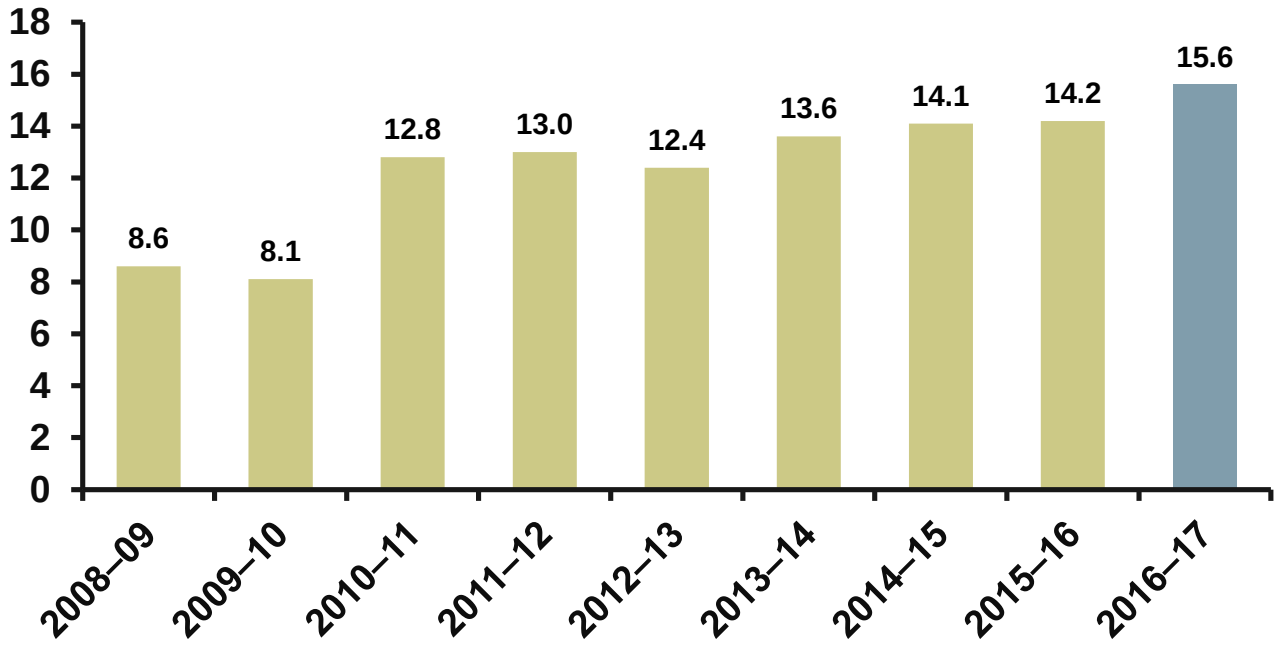


Note: Numbers may not add due to rounding

The Province may revise its Canadian dollar borrowing target of 75 per cent published in the 2016 Budget if international demand for Ontario bonds outpaces domestic demand.

Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years.

Average Term (years)



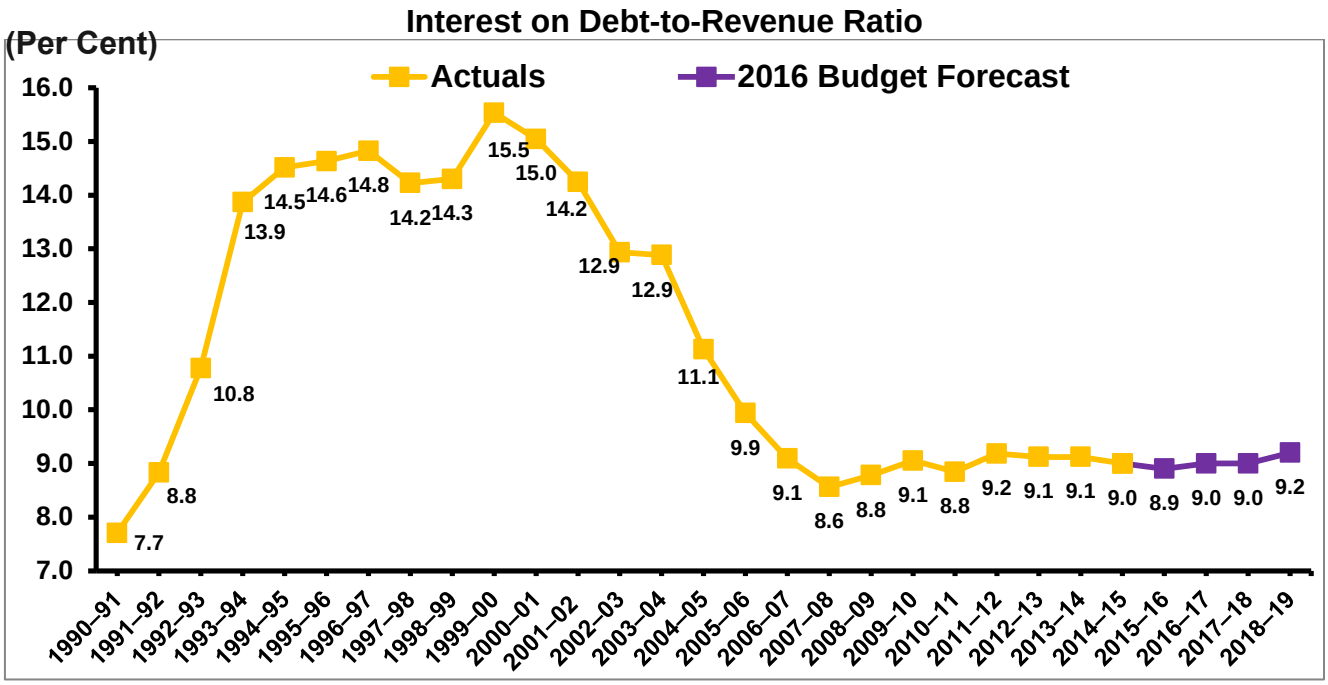
Interest on Debt

Ontario's interest on debt (IOD) is projected to remain at $11.8 billion for 2016-17, rising to $12.5 billion and $13.1 billion for 2017-18 and 2018-19, respectively.

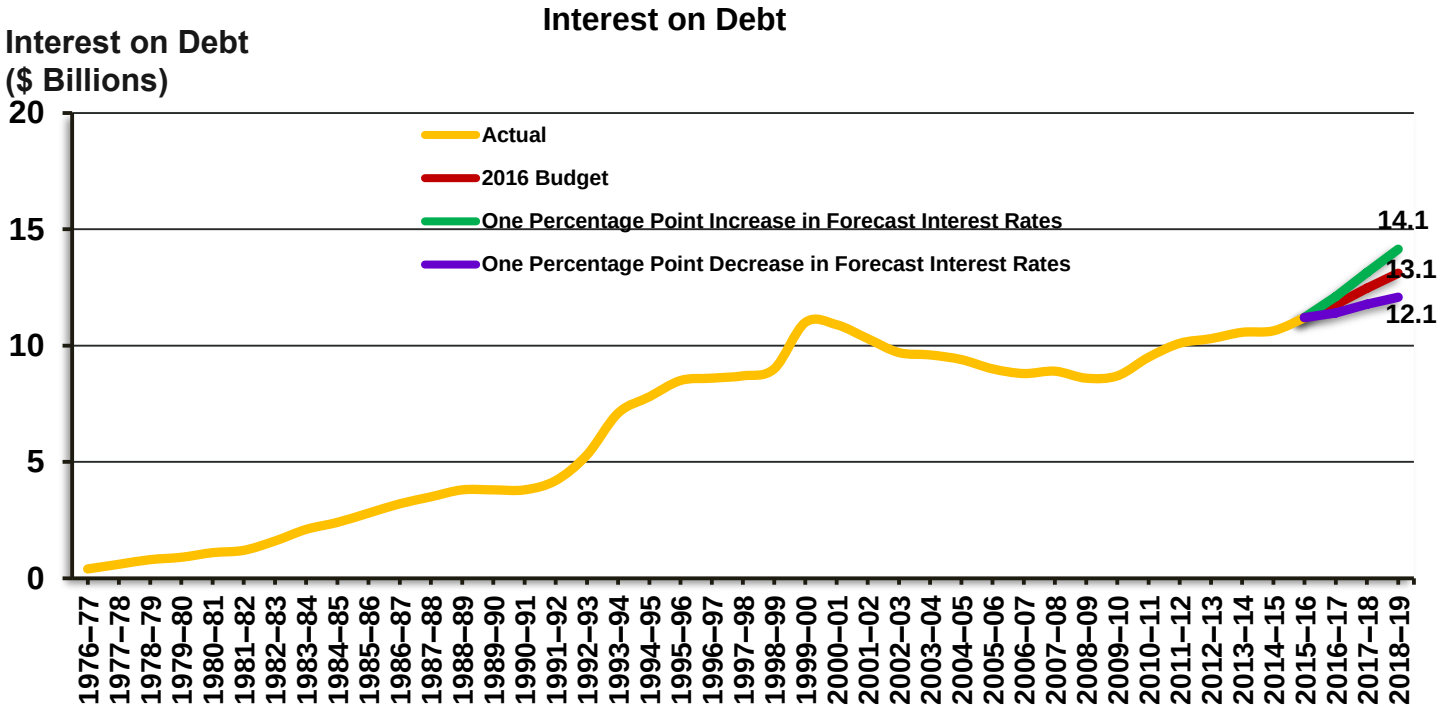
Although IOD increases from 2014–15 to 2017–18, it remains relatively constant as a percentage of government revenue. IOD-to-revenue falls to 8.9% in 2015–16 and is projected to remain at 9.0% over 2016–17 and 2017–18. As such, the increase in IOD has no impact on the Province's path to balance since its proportionate share of revenue is relatively constant. This ratio remains well below the peak reached in the mid-1990s because of the low interest rate environment over the past decade. IOD as a percentage of revenue is lower today than it was 10 years ago, in spite of more than a $143 billion increase in net debt over that period.

The *2010 Budget* forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0

cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.



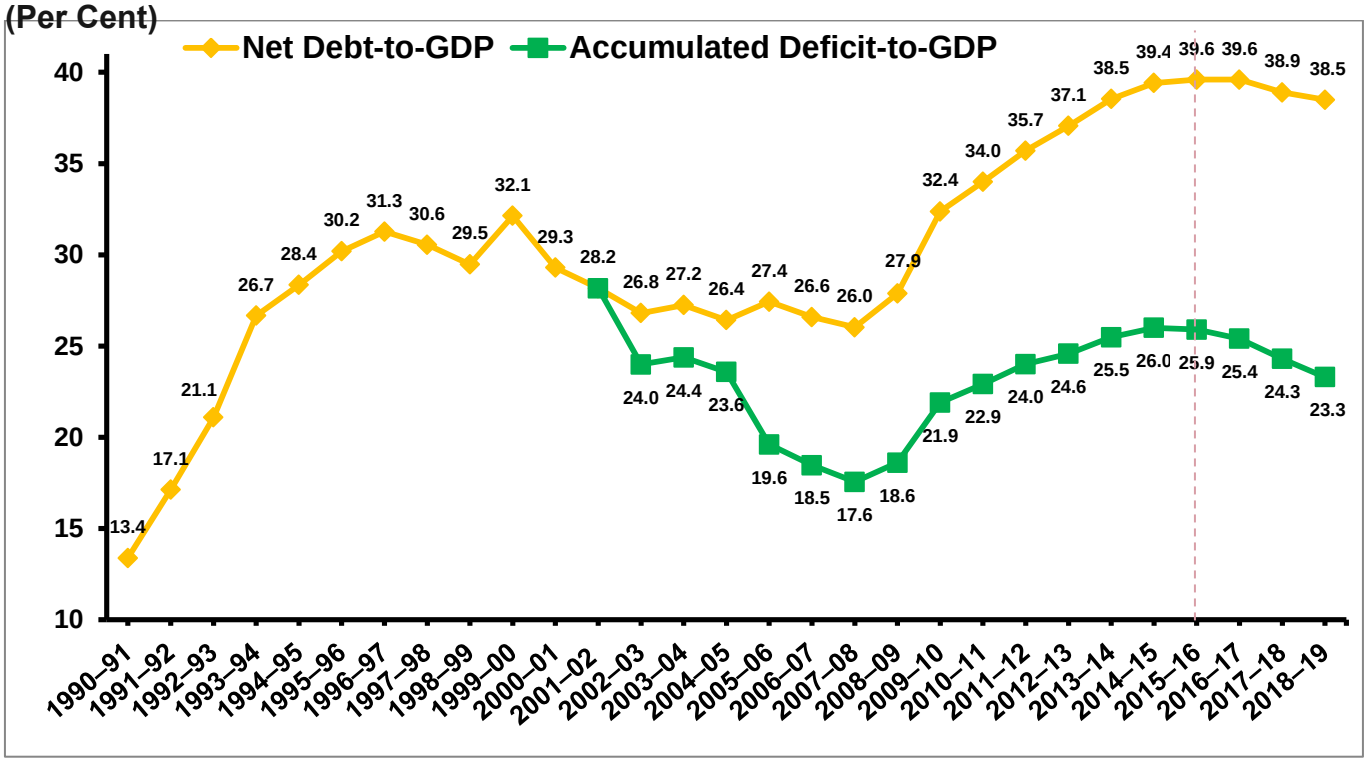
The Province's IOD is sensitive to interest rate fluctuations. A one percentage point change in interest rates would result in a change in Interest on Debt (IOD) of approximately $350 million in 2016–17, rising to $1.03 billion in 2018–19 alone. Rising IOD costs could crowd out spending on government priorities.



Net Debt-to-GDP

The government's strategy of enhancing GDP growth by investing in capital infrastructure has contributed approximately $90 billion to the increase in net debt over the last 13 years. Over the medium-term, net investments in capital assets will contribute over $26 billion to the total increase in net debt of close to $31 billion.

Net Debt-to-GDP and Accumulated Deficit-to-GDP



Debt Management

The Ontario Financing Authority uses a number of financial instruments, including options and swaps, to prudently manage risk. These financial instruments, or derivatives, are used primarily for hedging purposes and do not create net leverage. They are used to transform the cost of borrowing into Canadian dollars and foreign currency exposure from bond issues not denominated in Canadian dollars.

BACKGROUND

The three commonly used indicators of a government's financial and debt position are net debt, total debt, and accumulated deficit. Credit rating agencies and investors place the greatest emphasis on net debt.

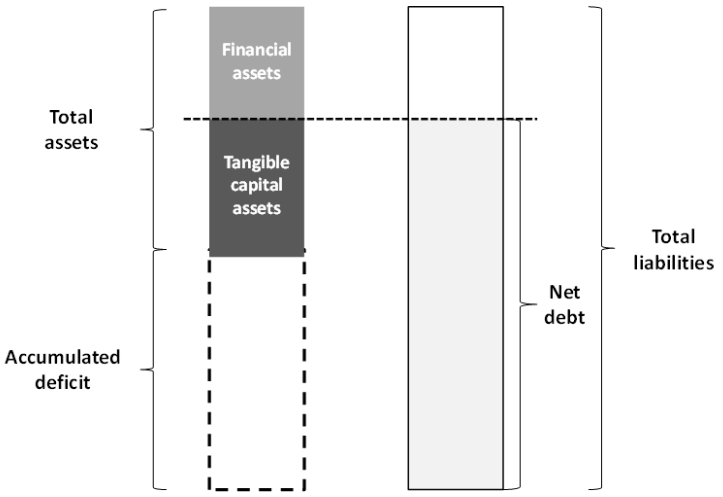
Net debt is the difference between the Province's total liabilities and financial assets. Ontario's net debt is projected to increase from $296.1 billion as at March 31, 2016 to $308.3 billion as at March 31, 2017, and $316.9 billion as at March 31, 2018 and $326.8 billion as at March 31, 2019. The increase in net debt primarily reflects the projected deficit, plus the increase in tangible capital assets of the Province. Financial markets use Net Debt as their primary measure because it represents the Province's future revenue requirements to pay for past transactions and events.

Total debt is the sum of the Province's total borrowings including Ontario Electricity Financial Corporation and agencies. Total debt is projected to increase from $315.0 billion as at March 31, 2015 to $325.3 billion as at March 31, 2016. This increase will be used mainly to fund the projected deficits and the government's capital investments. Canadian dollar denominated debt represents 81 per cent of the total debt projected as at March 31, 2016.

Accumulated deficit represents the sum of all deficits and surpluses. The accumulated deficit is projected to increase from $193.4 billion as at March 31, 2016 to $197.8 billion as at March 31, 2017. Accumulated deficit is projected to be $197.7 billion as at March 31, 2018 and remain unchanged as at March 31, 2019.

Accumulated deficit is not widely used in the financial markets, as it excludes debt raised for capital expenditures.

Net debt, Accumulated Deficit and Tangible Capital Assets



NET DEBT AND INTEREST ON DEBT: 1993-2018

	Net Debt ($ billions)	Net Debt (% of GDP) [5]	Interest on Debt ($ billions)	Interest on Debt (% of Revenue)[1]
1993-94	80.6	26.7	7.1	13.9
1994-95	90.7	28.4	7.8	14.5
1995-96	101.9	30.2	8.5	14.6
1996-97	108.8	31.3	8.6	14.8
1997-98	112.7	30.6	8.7	14.2
1998-99	114.7	29.5	9.0	14.3
1999-2000[2]	134.4	32.1	11.0	15.5
2000-01	132.5	29.3	10.9	15.0
2001-02	132.1	28.2	10.3	14.2
2002-03	132.6	26.8	9.7	12.9
2003-04	138.8	27.2	9.6	12.9
2004-05	140.9	26.4	9.4	11.1
2005-06[3]	152.7	27.4	9.0	9.9
2006-07	153.7	26.6	8.8	9.1
2007-08[4]	156.6	26.0	8.9	8.6
2008-09	169.6	27.9	8.6	8.8
2009-10	193.6	32.4	8.7	9.1
2010-11	214.5	34.0	9.5	8.8
2011-12	235.6	35.7	10.1	9.2
2012-13	252.1	37.1	10.3	9.1
2013-14	267.2	38.5	10.6	9.1
2014-15	284.6	39.4	10.6	9.0
2015-16 (Forecast)	296.1	39.6	11.2	8.9
2016-17 (Forecast)	308.3	39.6	11.8	9.0
2017-18 (Forecast)	316.9	38.9	12.5	9.0
2018-19 (Forecast)	326.8	38.5	13.1	9.2

Sources: 2014-15 Public Accounts, Ontario Budgets from 1993 to 2016.
1. In the 2009-10 Public Accounts, education property taxes were included in provincial revenue and no longer netted against education expense. To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change.
2. Starting in 1999-2000, the net debt includes the unfunded liability (stranded debt) of OEFC and interest on debt includes interest on OEFC debt.
3. Starting in 2005-06, the net debt includes the net debt of hospitals, school boards, and colleges that were recognized upon consolidation.
4. Starting in 2007-08, the net debt includes the unrealized gains and losses in the Ontario Nuclear Funds Agreement.
5. Historical Net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015.

Date Updated: August 31, 2016
Prepared by: Erica Wieder, Manager, Investor Relations (416-325-1661)

August 19, 2016

GREEN BONDS

What is the status of Ontario's green bond program?

SUGGESTED RESPONSE

- **On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million.**

- **There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade.**

- **The Province's second green bond was issued through its current domestic dealer group to Canadian and international institutional investors to continue to help to establish a Canadian-dollar green bond market and attract new investors.**

- **Retail investors were able to buy Ontario's green bonds through a Canadian financial institution.**

- **As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.**

- **Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation. Projects include:**

    - **Eglinton Crosstown Light Rail Transit ($402 million)**
    - **vivaNext Bus Rapid Transit ($100 million)**
    - **Regional Express Rail ($200 million)**
    - **Sheridan College ($68 million)**
    - **St Joseph's Hamilton Healthcare – West 5th ($14 million)**
    - **St Joseph's Health Care–London & St Thomas ($5 million)**
    - **Waypoint Centre for Mental Health ($2 million)**
    - **CAMH – Phase 1B ($2 million)**

- **All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.**

- **To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.**

- **Ontario's Green Bond Framework sets out the types of projects that may be eligible for green bonds, including:**

    1. **Clean transportation**
    2. **Energy efficiency and conservation**
    3. **Clean energy and technology**
    4. **Forestry, agriculture and land management**
    5. **Climate adaptation and resilience**

- **The size of future green bond issues will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year.**

CURRENT STATUS

Green Bond Issuance

On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond. It matures on January 27, 2023 and has a coupon of 1.95 per cent.

There was strong demand for Ontario's second Green Bond issue. Investors with green mandates in Canada as well as in the United States and Europe participated in the deal. Global offering format was used to leverage and facilitate international investor interest with strong trading liquidity supported by Ontario's current domestic dealer syndicate.

52 accounts participated in the transaction with 70 per cent of the deal allocated to investors with Green mandates and/or signatories to the UN Principles for Responsible Investment (PRI) initiative. Interest was driven by Asset Managers (54%), Insurance Companies (19%) and Banks (15%). Ontario added three new investors and expanded its Canadian dollar investor base by seven names.

These bonds capitalize on the Province's ability to raise funds at low interest rates, and serve as a tool for the government to address critical infrastructure needs.

Eight projects have been selected as eligible and are expected to receive funding from this Green Bond, with an emphasis on clean transportation and energy efficiency and conservation:

Clean Transportation Category	**Forecasted Funding ($ Millions)**
Eglinton Crosstown Light Rail Transit	402
vivaNext Bus Rapid Transit	100
Regional Express Rail	200
Energy Efficiency & Conservation Category	
Sheridan College	68
St Joseph's HH –West 5th	14
St Joseph's HC –London and St. Thomas	5

Waypoint Centre for Mental Health	2
CAMH –Phase 1B	2

All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.

The Eglinton Crosstown LRT was selected as the first project to receive Green Bond funding for $500 million in 2014. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Green Bond Program

Ontario's first and second green bonds were issued at yields similar to conventional Ontario bonds of comparable term and size.

The size of each green bond issue will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year. Assuming adequate demand, Ontario's green project pipeline is expected to easily support a green bond borrowing program and serve as a source of funding well into the future.

Ontario's green bonds are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects.

Retail Investors

Retail investors have been able to participate (through Canadian financial institutions) in both of the Province's Green Bond issues, accounting for approximately one per cent of total sales, in line with to slightly greater than the demand experienced with Ontario's regular domestic issues.

It is unknown to what extent Ontario retail investors would be motivated to buy green bonds if they are offered in a format similar to OSBs. Other international issuers who have attempted a direct retail approach for green bonds have struggled to raise funds.

Green Bond Framework

Ontario has developed a robust green bond framework that aligns with Ontario's environmental policies and climate objectives.

Ontario's Green Bond Framework sets out the types of projects that may be eligible for funding from green bonds. Without limitation, eligible projects may include projects in the following five categories identified in the Province of Ontario's Green Bond Framework, excluding fossil fuel and nuclear energy projects:

1. Clean transportation
2. Energy efficiency and conservation
3. Clean energy and technology
4. Forestry, agriculture and land management
5. Climate adaptation and resilience

Ontario's Green Bond Framework has been developed in consultation with the Centre for International Climate and Environmental Research – Oslo (CICERO).

Ontario's Green Bond program also aligns with the Green Bond Principles maintained by the International Capital Markets Association.

Project Selection

The selection of eligible green projects is done on behalf of the Province by the Ontario Financing Authority (OFA) staff with advice from the Province's Green Bond Advisory Panel (GBAP):

- Only fully approved projects are eligible for consideration. Spending authority for eligible green projects comes through approved ministry and agency spending in accordance with the Province's usual government appropriation and spending processes.

- OFA staff screen projects for all applicable approvals and against eligibility criteria prior to advancing projects to the GBAP for assessment.

- The GBAP, which includes staff from various ministries and agencies, including the Ministry of the Environment and Climate Change and the OFA, evaluates and recommends projects for inclusion in Ontario's Green Bond program.

Projects considered for green bonds will be consistent with Ontario's robust environmental policies and standards and limited to the categories in the Province's Green Bond Framework.

Use of Proceeds

Green Bond proceeds are paid into the Consolidated Revenue Fund of Ontario and are not held in a segregated account. An amount equal to the net proceeds of the bonds is recorded in a designated account in the Province of Ontario's financial records. This designated account is used to track the use of and allocation of funds to eligible projects. So long as the bonds are outstanding and the designated account has a positive balance, amounts are deducted from this account as funds are allocated to eligible projects.

Green projects will have funding requirements that occur within a twelve month period following and six month period prior to the issue of the green bond.

Updates on the selected green projects and allocation of funds to these projects will be reported to investors in an annual newsletter on the website of the Ontario Financing Authority. The first newsletter was published in late 2015.

An assurance audit will also be provided by the Auditor General of Ontario to verify amounts used for selected projects and the balance of proceeds remaining. This assurance audit is expected annually until all green bond proceeds have been allocated to selected projects.

August 8, 2016

OLD ONTARIO HYDRO'S STRANDED DEBT

What is the status of the old Ontario Hydro's "stranded debt", managed by Ontario Electricity Financial Corporation (OEFC)?

SUGGESTED RESPONSE

- **Based on interim numbers in Budget 2016, this is the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004.**

- **The electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. This allowed the government to follow through on its commitment to reduce electricity cost pressures.**

Ending the Debt Retirement Charge

- **As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.**
  - **This would save a typical residential user about $70 each year and mean ending the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.**

- **As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act*, *2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.**
  - **A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;**
  - **For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and**
  - **A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.**

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

- **In Budget 2015, it had been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could have extended beyond 2018, to the end of 2019 or later.**

  Prior to the Budget Measures Act 2015 amendments of the Electricity Act, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

- **This was subject to uncertainty as it depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities; the broadening of ownership of Hydro One; and other factors such as interest rates and electricity consumption.**

- **Residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments in lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.**

- **As published in the 2015 Ontario Economic Outlook and Fiscal Review, the residual stranded debt was estimated at $2.2 billion as at March 31, 2015, an estimated reduction of $9.7 billion from an estimated peak of $11.9 billion as at March 31, 2004.**

- **The amendments to the *Electricity Act, 1998* in the *Budget Measures Act, 2015* has removed legislative references to the stranded debt and residual stranded debt (RSD), as a fixed DRC end date would mean that they no longer serve a legal purpose.**

- **OEFC will continue to prepare and submit an annual report, including an update on its unfunded liability (often called "stranded debt") in its annual financial statements, as required under the Electricity Act.**

<u>Prudent Management Of Electricity Sector Debt</u>

- **Under the *Electricity Act, 1998*, the Ontario Electricity Financial Corporation (OEFC) will continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing certainty to commercial, industrial, and all other electricity users.**

- **Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.**

- **As announced in Budget 2016, the interim results of OEFC for 2015-16 show a reduction in stranded debt of more than $3 billion, to below $5 billion as at March 31, 2016. This would be the twelfth consecutive year that the stranded debt has been reduced, by a cumulative reduction of more than $15 billion between March 31, 2004 and March 31, 2016, based on the interim numbers.**

  - **Projected 2016-17 OEFC results are an excess of revenue over expense of about $0.6 billion.**

- **The government dedicates the revenues it receives from the electricity sector to OEFC. All OEFC revenues, including the DRC paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.**

- **This includes payment of interest costs. OEFC's interest expense is currently about $1.4 billion per year and has totalled about $30.6 billion between April 1, 1999 and March 31, 2015.**

- **The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.**

- **Stranded debt increased from April 1, 1999, to March 31, 2004 by over $1 billion.**
  - **The increase in stranded debt was primarily a result of the 4.3 ¢/kWh electricity price freeze, which cost about $900 million from May 1, 2002, to March 31, 2004.**

BACKGROUND

OEFC

OEFC is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro (OPG, Hydro One, IESO, Electrical Safety Authority, and OEFC). OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

Unfunded Liability / Stranded Debt

The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19.4 billion on April 1, 1999. OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Ending the DRC

The *Electricity Act, 1998*, previously allowed for the DRC to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

As part of its commitment to reduce electricity cost pressures, the government removed the DRC cost from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise had been provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation Bill 144, the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Under the *Electricity Act*, the ability for OEFC to be wound up is tied to when substantially all the debts and other liabilities of OEFC have been retired or defeased.

Prudent Management of Electricity Sector Debt

Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act*, *1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

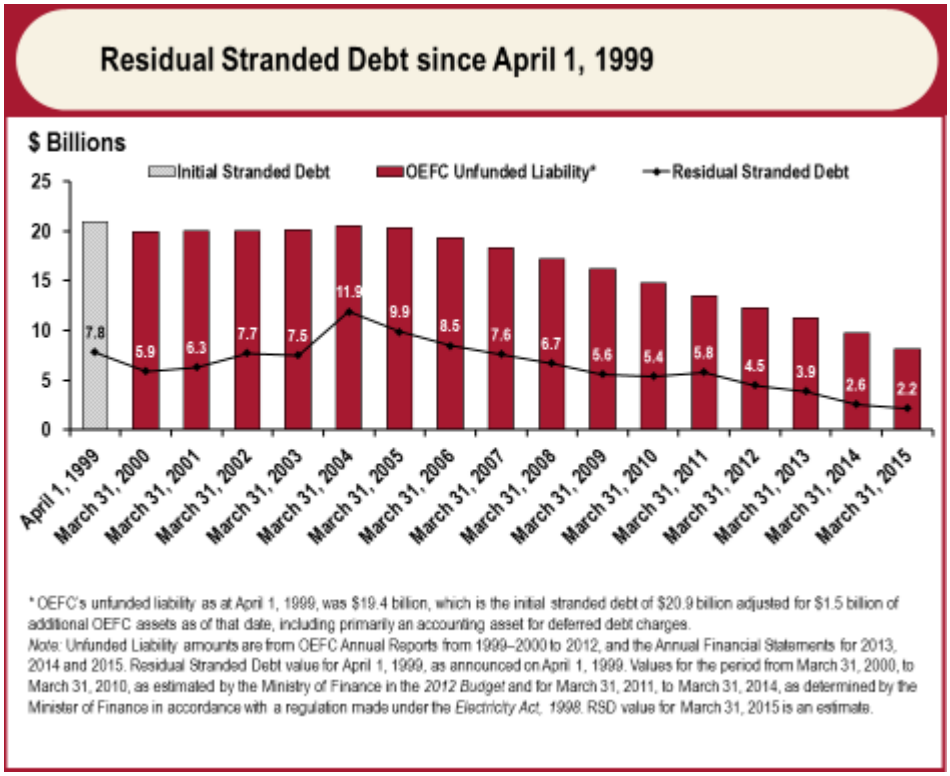
On May 15, 2012, the government filed Ontario Regulation 89/12, as provided for at that time under the *Electricity Act, 1998*, on the determination of the residual stranded debt, consistent with the recommendations of the Auditor General in his 2011 Annual Report that the residual stranded debt be determined in the near future.
The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the

previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2015.



<u>OEFC Dedicated Revenues</u>

OEFC is the legal continuation of the former Ontario Hydro with a mandate to service and retire the former Ontario Hydro's debt and certain other liabilities. The government has a long-term plan in place to retire OEFC's obligation from sources within the electricity sector, including the following:

Notes Receivable: OEFC receives principal and interest payments on notes from OPG, the Independent Electricity System Operator (IESO), and the Province. (Hydro One no longer owes any notes to OEFC.)

Payments-in-lieu (PILs) of Taxes: OEFC receives PILs from OPG, Hydro One, and MEUs.

On December 10, 2015, Bill 144, the *Budget Measures Act, 2015*, was passed, directing to OEFC Hydro One Inc.'s provincial corporate income taxes under the *Taxation Act, 2007*.

Gross Revenue Charge (GRC): OEFC receives a portion of the GRC that replaced property tax PILs on hydroelectric generating stations that are or were owned by OPG or MEUs. The GRC replaced existing property tax PILs for these facilities effective January 1, 2001.

Debt Retirement Charge (DRC): OEFC receives revenue from the DRC of 0.7 ¢/kWh levied on the consumption of electricity.

Electricity Sector Dedicated Income: The Province has committed to direct the income it earns from OPG and Hydro One, on a total cumulative basis, in excess of the interest cost of its investment in those companies (approximately $520 million annually, prior to the Hydro One IPO) to managing and retiring OEFC's debt and other liabilities.

OEFC's results are fully consolidated on a line-by-line basis into the Province's accounts.

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XX, 2016

Trillium Trust Act, 2014

What is the current status of the Trillium Trust?

SUGGESTED RESPONSE

- **The Trillium Trust Act, 2014, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support the Province's key infrastructure priorities, such as roads, bridges and public transit.**

- **Designated assets under the Act include the Province's shares in Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.**

- **The Act also provides for regulations to designate additional assets, such as the Seaton lands.**

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the sale of the LCBO head office lands, as well as the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support Moving Ontario Forward initiatives such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.**

BACKGROUND

Trillium Trust Act, 2014: Introduction in 2014 Budget

The 2014 Budget introduced the Trillium Trust Act, 2014, which established the Trillium Trust to provide for the dedication of net proceeds from the sale of qualifying assets to support the Province's key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014, was also established to require the Minister of Finance to maintain in the Public Accounts an account to track the receipt and disbursement of net proceeds obtained from the disposition of "qualifying assets".

Trillium Trust Act, 2014: Amendments in Budget Measures Act, 2015

The Act was amended in 2015, with a number of changes including:

1. Designation of certain named qualifying assets
    - Shares in Hydro One Limited
    - Shares in Hydro One Brampton Networks Inc.
    - LCBO head office lands
    - OPG headquarters building and attached property
    - OPG Lakeview lands and attached properties.

- The Act retains the authority of Treasury Board to designate further assets by regulation in future.
- The Seaton lands have not been named in legislation as the lands are made up of many parcels and are more complex and lengthy to describe. The Seaton lands can be named through regulations once the exact structure of a transaction or multiple transactions are known.

2. Allowing for non-cash revenue gains to be dedicated to the Trust

- The amendments provide for prescribing the amount of non-cash benefits recognized by the Crown in connection with the sale of a qualifying asset, to be credited to the Trillium Trust.
    - This allowed for the government to credit the Trust with the Province's fiscal benefit from the deferred tax benefit recognized by Hydro One.

3. Specifying the calculation of designated proceeds

- Designated proceeds are the gross revenues recognized by a ministry or public entity in connection with a sale, less book value, less any prescribed costs incurred, and/or

the value of any prescribed obligations assumed by a Ministry or public entity in disposing of the asset.

- The Act requires regulations to prescribe any costs and/or other obligations other than the book value of the qualifying asset, if necessary.

4. Changes to the nature of the spending authority in the Act

    - Previously, the amounts credited to the Trillium Trust were deemed as money received for the special purpose of infrastructure spending, under Section 7.(1) of the Financial Administration Act.

    - The amendments specify that amounts not exceeding the balance in the Trillium Trust may be paid out of the Consolidated Revenue Fund for the purposes of funding infrastructure.

5. Timing for designating assets as qualifying assets

    - To be eligible, an asset would need to be designated as a qualifying asset before the books of the Government of Ontario are closed for the fiscal year in which the asset is disposed.

6. Timing for reimbursement of expenditures

    - A reimbursement for infrastructure expenditures incurred by the Crown using the Trillium Trust must be made before the books of the Government of Ontario are closed for the fiscal year in which the expenditures are incurred.

<u>Trillium Trust Reporting</u>

The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust. The $1.35 billion reflects the net proceeds from the sale of the Province's General Motors common shares the redemption of preferred shares.

- The Province generated $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

- On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares, resulting in a fiscal gain of $1.08 billion.

- General Motors redeemed the Province's preferred shares on December 31, 2014, producing a gain of $0.02 billion.

On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.

- The designated proceeds of disposition totalled about $0.8 billion.
    - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.
    - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.
- The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
    - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
    - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.
- The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
    - In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the PWU and SEP. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
    - The gains from the share sales financed through a provincial loan will be credited to the Trillium Trust over time as the loans are repaid.

An update on the status of the Trillium Trust will be included in the 2015-16 Ontario Public Accounts.

Disbursements from the Trillium Trust towards Infrastructure

As announced in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016–17. Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.

Initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. It is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

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Date Prepared: August 30, 2016
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August 30, 2016

Broadening Ownership of Hydro One

How is the Province progressing in broadening ownership of Hydro One?

SUGGESTED RESPONSE

- **The Province continues to move forward with broadening ownership in Hydro One, to unlock value to reinvest in infrastructure through the Trillium Trust.**

- **The first phase, for about 16 per cent of the common shares in Hydro One, was completed in November 2015, with strong retail and institutional demand. The price in the initial public offering (IPO) was $20.50 per share.**

- **The Province received about $1.83 billion in gross proceeds from the IPO, before expenses and fees, and about $116 million from related share sales.**

- **On April 5, 2016, the Province announced that it had agreed to sell up to approximately 14 per cent of the common shares through a secondary offering (about 83.30 million shares) at a price of $23.65 per share.**

    - **The secondary offering raised approximately $2 billlion in gross proceeds, through a base offering that closed April 14th and an over-allotment option that closed on April 29th.**

- **Through broadening Hydro One ownership, the Province is on track to meet its target to generate:**

    - **$4 billion in net revenue gains over time that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward; and**
    - **$5 billion to reduce debt.**

- **On July 12, 2016, the Province announced an agreement in principle to sell to First Nations (FNs) in Ontario up to 2.5% of the total current common shares outstanding of Hydro One Limited (approximately 15 million shares) at a price of $18 per share.**

    - **All 133 FNs in Ontario are invited to participate in the transaction and the number of shares sold will be proportional to the level of participation, with a minimum 80% participation required by closing (Dec. 2017).**

    - **The purchase would be financed with a 25 year loan from the Province of up to approximately $268 million, depending on the level of First Nations participation.**

- **The Province would also provide seed capital to a new First Nation investment fund of up to $45 million in cash, depending on the level of First Nation participation, over the initial three years.**

- **By law, the Province is restricted from being able to sell down its interest to holding less than 40 per cent of the voting securities in Hydro One, following the IPO and subsequent share sales.**

    - **The rest of the shares in Hydro One would be broadly held, with no other shareholder or group of shareholders acting jointly together allowed to hold more than 10 per cent of the common shares.**

- **The ability to set Hydro One's transmission and distribution rates will continue to be at arm's length from Hydro One management, with rates set by the independent regulator, the Ontario Energy Board (OEB).**

    - **The government has also passed legislation that strengthens the OEB to further enhance its ability to protect electricity ratepayers with respect to cost, consumer protection and service reliability.**

<u>IF ASKED ABOUT ASSET OPTIMIZATION / TRILLIUM TRUST:</u>

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17. Based on planned expenditures in 2016-17, the Trillium Trust would support Moving Ontario Forward initiatives, such as**

    - **Regional Express Rail (RER),**
    - **Hurontario light rail transit (LRT), and**
    - **Ontario Community Infrastructure Fund.**

IF ASKED ABOUT USING PROCEEDS TO PAY DOWN DEBT:

- **The government is committed to using proceeds related to the book value of shares sold from broadening ownership in Hydro One to pay down electricity sector debt.**

- **These proceeds, along with a pre-IPO special dividend of $800 million which has been paid by the Province to the Ontario Electricity Financial Corporation (OEFC), will allow the Province to pay down its debt and other payables to OEFC.**

- **These amounts, and an additional one-time PILs payment of about $200 million to OEFC, will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay-down.**

IF ASKED ABOUT THE 2015 IPO DEFERRED TAX ASSET/BENEFIT:

- **The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.**
    - **Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.**

    - **The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.**

BACKGROUND

Fiscal Impacts

- Qualitatively, the key fiscal impacts on the Province from an IPO are composed of the following components:
    - The gain on sale of the portion of shares sold – that is the gross proceeds less expenses/fees and less the book value of the shares sold.
    - Any one-time impact of a deferred tax asset benefit to Hydro One's net income that would be consolidated into Public Accounts based on the Province's ownership level in Hydro One.
    - A reduction in electricity payments-in-lieu of taxes, as Hydro One, following the IPO, has exited the PILs system and become taxable under the federal Income Tax Act and the Provincial Taxation Act.
    - Following the IPO, the Province is continuing to consolidate the net income of Hydro One into its revenues in Public Accounts, based on its proportionate share of ownership.

- The fiscal impacts on the Province from a gain on sale of the shares in a secondary offering, or other sales, are similar to the impacts from the IPO. However, there is no one-time impact of a deferred tax asset benefit or incremental reduction in electricity payments-in-lieu of taxes.

- The impact of broadening the ownership of Hydro One is expected to result in a more efficiently run and better performing company. Under new management, a group of diverse and accomplished leaders, there will be a renewed focus on customer service excellence, finding efficiencies and improved reliability. The Province expects to receive financial benefits from a strong and growing company.

IPO Proceeds / Net Revenue Gains

- The Province received $1.83 billion in gross proceeds as a result of the IPO.
    - This is before deducting any expenses or fees from the offering.

- In addition to the gross proceeds amount from the IPO, the Province also sold about $116 million in shares to seperate trusts established by the Power Workers Union (PWU) and the Society of Energy Professionals (SEP).

- On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.
    - The designated proceeds of disposition totalled about $0.8 billion.
        - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.

        - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.

    - The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
        - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
        - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.

    - The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
        - Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
        - The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

- The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

    - While this would reduce OEFC's gross debt, it would not reduce stranded debt, as the Province's payables to OEFC that would be reduced are currently assets on OEFC's books. Both OEFC assets and debt would be reduced by the same amount.

- As part of this IPO process, the Province has received approximately $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, which has now been paid by the Province to OEFC, and about $200 million in additional payments in lieu of taxes to OEFC.

    - Since the Province reflects in revenue its net income from government business enterprises, dividends paid by the Province's electricity government business enterprises are not recorded as revenue and do not provide a direct fiscal gain to the Province.

<u>Secondary Offering</u>

- The secondary offering was a "firm commitment offering", where the underwriters committed to buy the entire offering from the Province at an agreed price before the underwriters undertake any public sales or marketing of the offered shares.

- A "firm commitment offering" eliminates marketing risk to the Province and transfers it completely to the underwriters as the underwriters buy the entire offering from the Province at a predetermined price.

- Once the transaction closes, the underwriters would be in a position to then sell to retail and institutional investors.

- RBC and Scotiabank were the co-lead underwriters for the secondary offering.

    - These two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

- The secondary raised approximately $2 billion in total gross proceeds, with approximately $1.7 billion coming from the initial base offering and $0.3 billion from the over-allotment option.
    - As part of the secondary offering, OPG purchased 9 million shares in connection with annual share award obligations for its employees in collective agreements reached with the PWU and SEP.
    - OPG independently made the decision to purchase Hydro One common shares in the offering and does not have any agreement, arrangement or understanding with the Province with respect to Hydro One common shares or the voting of those shares.

- Underwriting fees for this offering were 1% for institutional investors and 3% for retail investors, subject to an overall cap of 2%, totalling approximately $39.4 million with the over-allotment option exercised in full.
    - On a net basis (after fees), the Province raised approximately $1.93 billion.

- The price discount offered by the underwriters represented an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th, 2016 ($23.65 vs $24.16).

<u>Hydro One Dividend Policy</u>

- Hydro One's IPO Prospectus noted that Hydro One anticipated an annual dividend amount of approximately $500 million in the aggregate initially, based on a target payout ratio of 70 percent to 80 percent of net income

- In its 2015 Annual Financial Statements, Hydro One declared a dividend of 34 cents per common share, comprised of 13 cents for the post IPO fourth quarter period of November 5 through December 31 2015, plus 21 cents for the full first quarter ending March 31, 2016.

    - The dividend was paid on March 31, 2016. For the Province, that would be about $170M.

- On May 5, 2016, Hydro One's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on June 30, 2016 (to shareholders of record on June 14, 2016).

Departure Tax/Capital Contribution

- In connection with the IPO, Hydro One's exemption from tax under the federal Income Tax Act and the Taxation Act (Ontario) ceased to apply and Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status for proceeds equal to the estimated fair market value of those assets at that time.

- As a result of this deemed disposition, Hydro One was liable to make a "departure tax" payment in lieu of tax under the Electricity Act in respect of the income and capital gains.

- Before the IPO, the Province, as shareholder, made a capital contribution into Hydro One and received new common shares of Hydro One Limited for a total of $2.6 billion. This provided Hydro One with funds that it used to pay the "departure tax" to OEFC.

- This capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One.

- On November 4, 2015, Hydro One paid OEFC the $2.6 billion "departure tax".

    - This transaction is fiscally neutral as the Province consolidates both OEFC's revenue and Hydro One's net income on its books.

    - OEFC (and the Province upon consolidation) will record a higher payment in lieu of tax revenue due to the departure tax, but this amount will be offset by the reduction in Hydro One's net income as a result of the payment.

Initiatives to Support Broadening Hydro One Ownership

- As part of the IPO process, and to support Hydro One's transition to being broadly held, the government agreed with the recommendations of the Council that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly traded, rate-regulated entities.

- To achieve this, the Province has passed several legislative amendments, including legislation that requires that Hydro One retain the company's headquarters and grid control centre in Ontario.

    - In addition, the legislation provides for substantially all of Hydro One's senior executives with strategic decision-making authority to be located and carry out those functions in the province.

- The government has also put in place a governance agreement and registration rights agreement with Hydro One to serve both the public interest and investors' interests. The agreements clarify the Province's role as investor, including the process in which the Province nominates 40 per cent of the Board of Directors and the Province's rights related to future share sales by the Province or Hydro One.

- The Province appointed a new Board of Directors for Hydro One on July 17, 2015, (with the exception of Mayo Schmidt, who replaced Carmine Marcello) which includes:

    - David Denison (returning Director and Chair), former President and CEO of the Canada Pension Plan Investment Board;
    - Ian Bourne, Chair of Ballard Power Systems Inc.;
    - Charles Brindamour, CEO of Intact Financial Corporation;
    - Marc Caira, Vice Chairman of the Board of Directors of Restaurant Brands International Inc.;
    - Christie Clark, former CEO and Senior Partner of PricewaterhouseCoopers LLP;
    - George Cooke, (returning Director), Chair of the Board of Directors of the OMERS Administration Corporation;
    - M. Marianne Harris, former Managing Director at Bank of America Merrill Lynch Canada;
    - Jim Hinds, former Chair of the Independent Electricity System Operator (IESO) Board;
    - Kathryn Jackson, Senior Vice President and Chief Technology Officer of RTI International Metals, Inc.;
    - Roberta Jamieson, President and CEO of Indspire, former Board Member of Ontario Power Generation, and former Ombudsman of Ontario;
    - Frances Lankin, a member of the Board of Directors with the Ontario Lottery and Gaming Corporation; former President and CEO of United Way Toronto; and former member of the Premier 's Advisory Council on Government Assets;
    - Mayo Schmidt, President and CEO of Hydro One Limited.;
    - Philip Orsino, former President and CEO of JELD-WEN Inc.
    - Jane Peverett, former President and CEO of British Columbia Transmission Corporation; and
    - Gale Rubenstein, (returning Director), Partner at the law firm Goodmans LLP.

- On June 23, 2015, Michael Vels was hired as the new Chief Financial Officer and on August 20, 2015, Mayo Schmitt was hired as the new Chief Executive Officer.

- On February 3, 2016, Hydro One announced the first senior executive change since the IPO as Sandy Struthers, Chief Operating Officer and Executive Vice President left the company.

- On Aug. 22, 2016, Hydro One announced the appointment of Greg Kiraly to the role of Chief Operating Officer, effective September 12, 2016.

<u>Loans to PWU/SEP Trusts</u>

- The Asset Council’s Phase 1 report highlighted the need for a dialogue with management and labour unions to address cost implications of labour and pension agreements at Hydro One.

- In the Council’s Phase 2 report the Council recommended that the Province, Hydro One management, and unions finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation.

- The Power Workers Union (PWU) and the Society of Energy Professionals (SEP) collective agreements provide for net zero increases and substantial movement in pension sustainability, aligning with the recommendations contained in the Leech report.

- The government extended a $75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and $36 million in loans to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One.

- The loans are to the seperate trusts, not to individual employees. These arrangements allow the unions to invest in high quality jobs for Ontarians, which the Province believes is consistent with the purpose of the IPO and will better align the interests of the union members with those of investors in Hydro One.

- The unions were also permitted to purchase some additional common shares from the Province with their own resources ($5 million in shares to PWU and $3 million in shares to SEP).

Executive Compensation

- For comparable companies, the pay for Hydro One senior management will actually be set at the medium-to-low range. And a large part of that compensation will be 'at risk' if they fail to perform.

- This pay is in line with similar privately-held energy companies in Canada. The CEO of Fortis Inc. received $5M in compensation, and the CEO of ATCO Ltd. received a salary similar to that of Hydro One's new CEO.

First Nations

- The government has committed to a formal Political Accord with First Nations (FNs), and is dedicated to working collaboratively on a host of issues, including energy.

- On July 12, 2016 the Province announced an agreement in principle to sell to the FNs in Ontario, up to approximately 15 million shares of Hydro One Limited (2.5% of the total current common shares outstanding).

- All 133 FNs in Ontario are invited to participated in the transaction and a minimum 80% threshold of FN participation by the end of 2017 is required for the transaction to close. Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement.

- If the agreement is ratified, the Province of Ontario would sell shares of Hydro One to an investment vehicle owned by the FNs at a price of $18 per share (which is above the Province's book value for the shares).

- This purchase would be financed with a 25-year loan from the Province of up to approximately $268 million, depending on the level of FN participation. The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points.

- Moreoever, the Province would also provide seed capital to a new FN investment fund of up to $45 million in cash over the initial three years, depending on the level of FN participation in the transaction.

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Date Prepared: August 30, 2016
Approved by: Ronald Kwan, ADM, Corporate and Electricity Finance Division
August 30, 2016

Standing Committee on Public Accounts

OCTOBER 4, 2016
BRIEFING BINDER

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From:	Ize-Dukuze, Marilyn (MOF)
To:	Birks, Ryan (MOF); Tomasz Bugajski; Jason Wesley (MGS); Smith, Emilie (TBS); Ghufran Tarin (MOF); Christina Zhang
Cc:	Matthew Sylvain (MOF)
Subject:	SCOPA Materials | Final Binders
Date:	Tuesday, October 04, 2016 2:35:15 PM
Attachments:	SCOPA 2016 Friendly QAs_v3 100416 130 pm.docx Gadi Maymans Speaking Points CSB edits_Oct 4 2016 9am_clean.docx SCOPA_Remarks_MOF Deputy Thompson_v10 100416 1045 am.docx MOF General QAs Oct 4 2pm_v2 OFA edits.docx SCOPA - TBS DM Opening Remarks Oct 4-2016-clean.docx
Importance:	High

Hi all –

List of Materials requiring edits by EOD as per 12pm meeting. I've attached the latest version of each document.

Remarks

- DM Orencsak (10mins)
- DM Thompson (5mins) – please remove references to 2015-16 PA
- Gadi Mayman (3mins) – please remove references to 2015-16 PA
- Tom Teahan (3mins) – **WSIB will share these shortly, I've advised them of the timing.**

Friendly QAs - please remove references to 2015-16 PA

- **TBS Comms to provide edits TBS Questions and answers.**

General QAs (should only about 2014-15 PA, such as version used for Sept 30, 2016 meeting)

- MOF (OFA has already made their edits, folks can continue working from that version)
- TBS (TBS Comms, can you share this once you've separated out the 2015-16 QAs?)

2015-16 PA Q&As Package – should be separate from General QAs on 2014-15 PA

- TBS Comms to provide. I have already sent CEFD and OTB edits for this document.

Let me know if there are any questions via this thread.

Thanks

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Friendly Questions (MOF)

1. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 39.4 per cent. This improvement is a direct result of better than forecast deficits.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last seven years. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

2. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 27 per cent lower, at 8.5 cents of interest costs for every dollar of revenue. This ratio is the lowest it has been in 25 fiscal years or since 1990-91, and is forecast to remain low through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the

weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3 years as of September 30.

3. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, 2015-16 is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

4. Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue.

This ratio is the lowest it has been since 1990-91, and is forecast to remain low through the outlook period in 2018–19.

5. Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

Friendly Questions (TBS)

6. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and
6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. How does the Financial Statement Discussion and Analysis meet the best practices recommended by Public Sector Accounting Board?

A.: In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.* The two pieces of legislation work together to ensure a principled financial management framework for Ontario.

In addition, the government has taken steps to enhance transparency and accountability and to make the information more accessible and understandable for the average person. We've used data visualization in the past, and this year we are supplementing the information with more online tools and graphics. This means the average person is better able to understand the trends in balance sheet and operating activities in the last five years. It also means a person can more search through the data more easily.

We've also made improvements after a recommendation by the Auditor General about the Financial Statement Discussion and Analysis section of the government's Annual Report.

We've changed the format and layout of this section to ensure it's presenting the province's key financial facts in a non-partisan manner.

Expanding beyond the Auditor General's recommendations, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

8. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs
- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

9. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18.

By continuing to beat our fiscal targets, and through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

10. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

11. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and

entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

12. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

13. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a policy decision to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action**

plans to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

Friendly Questions (WSIB)

14. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where the province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Following the 2009 report of the Auditor General, the government took steps to amend the *WSIA* to confirm the independence of the WSIB and reinforce its Trust status.

15. What progress has the WSIB made on its target to be fully funded by 2027?

A. Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. Our Sufficiency Ratio is forecasted to reach 85% by the end of the year, compared with 54.2% (funding ratio) in 2009.

The UFL is being reduced ahead of schedule - from a peak of $14.2 billion in 2011, the UFL has now been brought down to $5.6 billion (sufficiency basis) in 2016 (Q2).

We have updated our funding trajectory as part of our 2016 economic statement and we expect to reach 100% sufficiency by 2021, six years ahead of the legislated requirement.

Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

Increased premium revenue from employers that was collected specifically to decrease the UFL.

Higher investment returns than long-term targets.

Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.

Improved recovery and return-to-work results – achieved through the WSIB's health care and return-to-work initiatives, along with more efficiency in the claims management process.

16. Can you please give us an update on the status of the WSIB review of its long term financial viability?

A. Long-term viability is about getting to a funding level which will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability for employers.

In order to moderate the risk of any future UFL in the event of economic shocks, the WSIB plans to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding. This target was determined by examining the Office of the Superintendent of Financial Institutions (OSFI) guidelines and funding levels maintained by other workplace compensation boards.

The WSIB's current estimated trajectory shows us reaching full funding (115%) by 2025 while offering premium rate reductions of 5% in each of 2017, 2018 and 2019. Projections also include potential rate reductions of 15-20% between 2023 and 2027.

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive Post Traumatic Stress Disorder (PTSD) legislation, indexation of partial benefits), invest in our systems to improve service, and lower premium rates.

Remarks by Gadi Mayman
CEO
Ontario Financing Authority

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 835

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed towards reducing the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited

to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

This means that achieving balance will put net debt-to-GDP on a declining track.

Moody’s notes in a report issued October 3, 2016 that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, “The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province’s Aa2 rating.”

[Borrowing Program]

Ontario conducts a robust and responsible borrowing program that protects the public interest.

In 2015–16 the government successfully completed its annual borrowing program, borrowing $32.1 billion.

As of September 30, 2016, the province has borrowed $13.3 billion of its $24.4 billion requirement for fiscal 2016–17.

The recently released 2015-16 unaudited Financial Statements of the Province included a legislated pension adjustment that increased net debt by $10.7 billion.

The pension adjustment was non-cash and does not impact either the Province’s total debt or its borrowing requirements.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario’s refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

As of September 30, 2016, the average term to maturity for new borrowing in 2016–17 was 15.3 years.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

As I mentioned a moment ago, it was 15.3 years as of September 30th this year.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is the lowest it has been since 1990, and is forecast to remain low through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

As of September 30, 2016, the actual values for Ontario's net interest rate resetting exposure and foreign exchange exposure were 10.6 per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 1,020

Check against delivery

Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government continues to confirm its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

This commitment builds on past success.

This week the government released Ontario's Annual Report and unaudited Consolidated Finance Statements for 2015-16, which show the Province's deficit for 2015-16 at $5.0 billion.

This is $3.5 billion lower than projected in the 2015 Budget.

It also marks the seventh year in a row that the province has beaten its annual deficit target.

And it represents a $5.3 billion improvement compared to the 2014–15 deficit.

The government is achieving these targets by managing program spending growth and by making strategically important financial decisions.

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in 2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote:

"The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels."

End quote.

Moody's outlook on the Province was further confirmed in a report issued on October 3, 2016 and I quote:

“Ontario’s debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province’s improving fiscal position and conservative debt management policy.”
End quote.

The report also states, and I quote:

“The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province’s Aa2 rating.”
End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province’s fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

[Conclusion]

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.

- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.
- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.

- In May, both Quebec and California sold about 11% of the total allowances they each offered.

- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and

- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

~~**Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?**~~

~~A. The reduction in the Net Debt-to-GDP ratio was primarily due to lower than forecast deficits and investment in capital assets in 2015–16.~~

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of ~~August 31~~September 30, 2016, $13.3~~2.5~~ billion or 5~~4~~1 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of ~~August 31~~September 30, 2016, the Province had borrowed $13.3~~2.5~~ billion for the fiscal year. Approximately 69~~71~~ per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.
This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

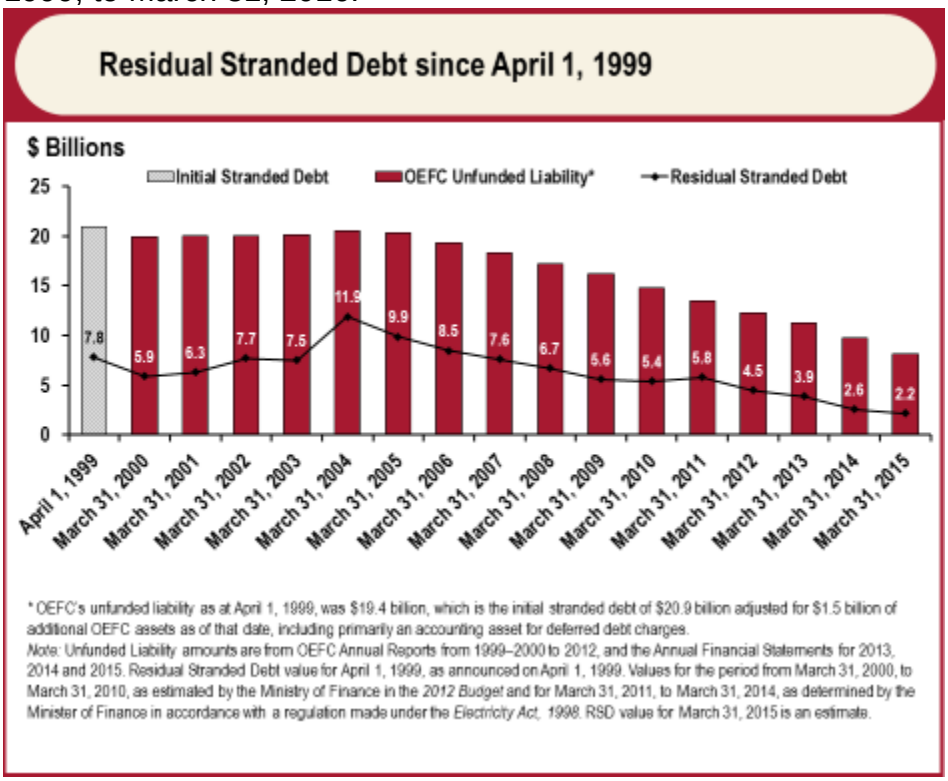
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including 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 description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

Standing Committee on Public Accounts

Review of Auditor General's 2015 Annual Report, Chapter 2

October 5, 2016

Deputy Minister Orencsak Opening Remarks

Good afternoon Chair and fellow members of the Public Accounts Committee.

On behalf of myself and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on Chapter 2 of the Auditor General's 2015 Annual Report.

This includes discussion on the province's debt as well as a discussion of the 2014-15 Province's Annual Report and the accompanying Financial Statement Discussion and Analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As members of the Committee will know, we also had the pleasure of joining this Committee last year to discuss Chapter 2 of the Auditor General's 2014 Annual Report.

We look forward to having these discussions with this Committee and to maintaining the positive and collaborative relationship we enjoy with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in Chapter 2 of her Annual Report last year. During our presentation we will

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update the Committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard-setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public-sector entities.

We all agree on the importance of producing high-quality financial reports, which serve the transparency and accountability needs of the public and the legislature.

When we appeared before the Committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 Annual Report.

Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Thomas Teahan, President and CEO of the Workplace Safety and Insurance Board, who you have invited to appear before the Committee today.

Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahan would be pleased to update you on the board's progress in meeting its sufficiency ratio which has been an interest of the Auditor General over the past several years.

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As I noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results, but also in relation to the government's fiscal planning process.

Since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting, and what the primary users of this information expect from their governments.

I am sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which the Public Sector Accounting Board's accounting standards are set.

Clear, concise and understandable public reporting of financial information is crucial to governments, which are held accountable for good financial management of taxpayers' money.

In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.*

These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the *Fiscal Transparency and Accountability Act* in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

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Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

At last year's hearing we reported that Ontario had received an 'A', ranking it among the best in the overall quality of its reporting of financial results.

This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of release, our ranking has fallen to an "A-". In other words, it remains very good.

In line with C.D. Howe's position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB's standard for Liability for Contaminated Sites, noted in the Auditor General's Report as a challenge that was successfully navigated.

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Staff at the Treasury Board Secretariat have taken steps to enhance the transparency and accountability in the report, and to make the information contained in it more accessible and understandable for the average person.

Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average person to better understand the trends in balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the Financial Statement Discussion and Analysis section of the government's Annual Report.

Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a non-partisan manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB's Statements of Recommended Practice, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

Ontario's Annual Report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management, and transparency and accountability in public reporting.

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As Deputy Minister of Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen the accountability and transparency of the Public Accounts.

In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high quality public sector reporting for the people of Ontario.

At this point I would like to turn things over to Deputy Thompson to discuss debt management and financial accounting in greater detail.

(turn over to MOF)

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From:	McLean, David (MOF)
To:	Tim Schuurman (MOF); Brian Lewis (MOL); Gadi Mayman; Ken Kandeepan
Cc:	Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Christina Zhang; Ghufran Tarin (MOF); James Pearce (MTO)
Subject:	URGENT FACT CHECK
Date:	Monday, October 03, 2016 9:27:59 AM
Importance:	High

Hi all,

Can you please review the statement below and provide any **factual edits** in red? MO is looking for this urgently.

Thanks,
Dave

From: Ingram, Kelsey (MOF)
Sent: October 3, 2016 9:23 AM
To: McLean, David (MOF); Ize-Dukuze, Marilyn (MOF)
Subject: Re: For FACT CHECK

One revision in red below which will need fact checking as well

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ingram, Kelsey (MOF)
Sent: Monday, October 3, 2016 9:19 AM
To: McLean, David (MOF); Ize-Dukuze, Marilyn (MOF)
Subject: For FACT CHECK

Minister Sousa Statement

For the past 14 years, our government and previous governments have followed the same accounting standards with respect to the treatment of jointly sponsored pension plans. These standards have been consistently accepted by the past three Auditor Generals (FACT CHECK), including the current Auditor General who, under these same principles, has provided unqualified – or clean audit opinions for the past two years.

This year, within **two weeks** of the September 27th deadline for the tabling of the Public Accounts, we learned that the Office of the Auditor General had changed its mind regarding how pension assets for jointly sponsored pension plans should be recognized.

In addition, as you know, this new interpretation has resulted in a difference of opinions between accountants from within the Ontario Public Service and the Office of the Auditor General.

I have great respect for the expertise and independence of both the Office of the Auditor General and the Province's professional accounting staff and believe their respective opinions warrant additional discussion and analysis.

However, we also have a responsibility to the people of Ontario to be open and transparent about our financial position. It is important that Ontarians see that even in this time of global economic uncertainty, Ontario's economy continues to grow and our deficit continues to shrink.

In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

It is also important that we remain open and transparent so investors and the financial markets can maintain their confidence that Ontario is still on track to balance the budget in 2017-18.

That is why we have decided to release our financial statements to the public today despite the divergence in accounting opinions. In order to do this, we regulated the treatment of the pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General for 2015-16. We believe this to be the most cautious approach that ensured the public had access to our financial statements and that our numbers aligned with those of the Auditor General – at least until an independent review of the opposing opinions can be completed.

The impact of this change resulted in our deficit number being 1.5 billion dollars higher than it otherwise would have been in 2015-16 using the standards employed for the past 14 years. I want to reiterate however Minister Sandals' comments to stress that after incorporating the Auditor's proposed accounting interpretation, we have still beaten our deficit target for the seventh year (FACT CHECK) in a row.

We have done this by controlling the growth in spending….

…by making sure that every dollar spent provides maximum value to taxpayers…

…and by improving the integrity of our province's revenues.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

Our government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19 as outlined in the 2016 Budget.
The new accounting interpretation does not change that commitment nor does it change the progress we have made in creating jobs and growing the economy.

It is also important to note that the regulated accounting change has no impact on the Province's borrowing requirements and our total debt remains unchanged by the pension adjustment. Based on our government's plan, net debt-to-GDP is expected to peak in 2015–16, remain level in 2016–17 and begin to decline in 2017–18 – supporting greater sustainability in Ontario's debt management.

Looking forward, given the Auditor's revised accounting standard interpretation and its subsequent review are recent developments, they will both be taken into consideration

along with other economic factors, as we prepare the 2016 Fall Economic Statement and 2017 Budget. We will do this while continuing to track toward a balanced budget for 2017-18.

Thank you.

We will now take your questions.

Sent from my BlackBerry 10 smartphone on the Rogers network.