

From: [Pearce, Christopher \(MOF\)](#)
To: [Gadi Mayman](#); [Christina Zhang](#)
Subject: FW: Accounting risks
Date: Friday, December 09, 2016 9:48:12 AM
Attachments: [SOC briefing accounting risks_Dec 8 pm.pptx](#)

Gadi – attached is the accounting risks deck for this morning's meeting with the SoC. I'm printing a copy for you.

From: McLean, David (MOF)
Sent: December 9, 2016 9:46 AM
To: Pearce, Christopher (MOF)
Subject: FW: Accounting risks

From: MacIntyre, Kyle (TBS)
Sent: December 9, 2016 9:06 AM
To: Bromm, William (CAB); Foster, Robert (CAB)
Cc: McLean, David (MOF); Simone, Nicole (TBS)
Subject: Accounting risks

Here's the deck for this morning's conversation.



Office of the Provincial Controller

Financial Reporting Risks

December 9, 2016

Briefing to Secretary of Cabinet

DRAFT

Purpose



- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues
- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary



	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	\$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	\$1 Billion	No	Yes
3	Cap & trade proceeds	\$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto (similar model for other transit projects)	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

1. Net Pension Assets

Risk:	High High profile issue; material forward-looking impact and/or volatility depending on nature and timing of co-sponsor agreements; relationship risk with co-sponsors and AG; audit risk if AG does not accept outcome inconsistent with her interpretation
Impact in 2016-17 (billions):	\$ 2.2
Multi-year impact:	Yes -- \$2.8B in 2017-18, \$3.7B in 2018-19, and \$3.9B in 2019-20
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status/next steps:	• Expert panel has met twice - current focus on OTPP and OPSEUPP; • meeting scheduled with AG on Dec. 16; • Chair will be ready to brief OPCD/TBS/MOF/MO in early Jan 2017 and finalize report on OTPP/OPSEUPP by Jan 31, 2017. • HOOPP and CAATPP will be addressed in a supplement after January 31, 2017
Options under consideration:	a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation)
Timing of expected resolution:	• Panel report back – January 9, 2017 • Panel report (OTPP/OPSEUPP) – January 31, 2017 • Asset valuations – February 15, 2017 (target) • Agreement with OTB (if required) – TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	• EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) • Health & MAESD not currently engaged (not sponsors of HOOPP or CAATPP)

2. IFRS-US GAAP differences – OPG and H1



Risk:	High Audit risk (qualification for 2016/17 based on AG approach); lack of certainty w.r.t future IFRS standards for rate regulated accounting; transparency, accountability and VFM implications of 2 sets of books; AG Act implications of legislated accounting option
Impact in 2016-17 (billions):	\$ 1.0 (based on AG's approach)
Multi-year impact:	Yes -- \$100M in 2017-18, \$ 100M in 2018-19, and \$ 100M in 2019-20 (all based on AG's approach) Impact based on OPG's preferred approach -- \$375M in 2016-17; \$400M in 2017/18; \$500M in 2018/19, \$700M in 19/20
Impact included in FES:	No
Description of issue:	PSAB requires consolidation of OPG and H1 on an IFRS basis, whereas the Public Accounts reflects consolidation on a US GAAP basis, consistent with OPG and H1 external reporting as allowed by Securities Regulators and OEB
Current status/next steps	- Significant differences have historically been with OPG – working with OPG to refine estimates and assess ability to use OPG's preferred approach without a receiving a qualified opinion from AG; - Assessing whether it would be useful to approach PSAB again (response to OPS in 2016 connected any change to IFRS project on rate-regulated accounting, which is not scheduled for completion for several years)
Options under consideration:	(a) Continue to report OPG and H1 on a US GAAP basis in the CFS (legislate accounting; will result in qualified opinion unless AG Act also changed) (b) Approach PSAB for additional consideration; (c) Report OPG and H1 on an IFRS basis in the CFS (entities could continue to produce US GAAP financial statements for stand-alone financial statements) (d) Report OPG on IFRS and H1 on a US GAAP basis – historically significant differences have been in OPG; would leave publicly traded company (H1) with requirement to keep one set of books for now
Timing of expected resolution:	2017 Budget -Legislative changes could be considered as part of Spring Bill -Consider changes to basis of reporting for OPG/H1 to be reflected in Budget
Province's ability to influence:	Province is not able to influence PSAB or AG; If Province decides to consolidate OPG using IFRS, impact in year is estimated to be \$375 million vs. \$1 B
Role of other ministries:	Energy aware of ongoing considerations and stakeholding with OPG and H1 OEFC involvement as necessary where potential impacts on f/s or audit opinion

3. Cap & Trade Proceeds

Risk:	High Timing of first auction in March 2017 results in settlement process straddling the year-end complicating timing of revenue recognition. Accounting model for new revenue stream requires consultation with OAG.
Impact in 2016-17 (billions):	\$0.5
Multi-year impact:	No (although it is likely that if auction proceeds from March 22, 2016 auction are recognized in fiscal 2017-18, proceeds from 5 auctions will be recognized in fiscal 2017-18 as the last auction is 2017-18 is scheduled for February 2018 and the auction settlement process is expected to be complete by March 31, 2018)
Impact included in FES:	Risk not identified in the FES
Description of issue:	Assumptions regarding timing of revenue recognition for 2016 Budget in question. Based on preliminary accounting analysis, revenue likely to be recognized once emission allowances have been transferred to participant accounts. For the March 22, 2016 auction, this would mean that the related revenue is recognized in fiscal 2017-18.
Current status/next steps	- OPCD working through comments on accounting analysis received from MOECC. - Accounting analysis to be shared with OAG in December to obtain preliminary feedback/concurrence for 2017 Budget.
Options under consideration:	- Unlikely that settlement process can be completed by March 31, 2017. - MOECC is providing additional information re: consideration of whether revenue recognition would be appropriate at auction certification date which occurs prior to the emission allowances being credited to the participant accounts (Auction certification date currently estimated as March 29, 2017)
Timing of expected resolution:	Mid-January/17 for feedback from OAG
Province's ability to influence:	If MOECC is able to move up the Auction date such that settlement process is complete by March 31, 2017, revenue would be recognized in 2016-17, subject to review by OAG.
Role of other ministries:	MOECC a key stakeholder and has provided background on C&T design, risks and rewards to the Province. Analysis has been provided to MOECC and MOECC has provided feedback. MOECC working through providing additional evidence supporting auction certification date as revenue recognition date for March 22, 2017 auction.

4. Metrolinx MOU with City of Toronto

(Note – model is being used for other transit projects as well)



Risk:	High Material potential impact on fiscal plan reflecting transaction with City as well as impact for future transactions for Mississauga and Hamilton assets (Hurontario LRT, Hamilton LRT)
Impact in 2016-17 (billions):	\$ TBD
Multi-year impact:	Yes (amounts TBD)
Impact included in FES:	No
Description of issue:	MOU contemplates the City taking responsibility for operations and maintenance of certain transit and also retaining the transit revenue. The Province will retain lifecycle risk. It must be determined whether the Province maintains control of the transit assets (and therefore capitalizes and amortizes the assets over their useful lives) or whether the Province has substantively transferred the assets to the City of Toronto (which would be accounted for as a transfer and accelerate the recognition of the expense as compared to the capitalize and amortize model)
Current status/next steps	MOU between the Province and the City, including reference to funding for City from transit revenues. Follow-on agreement between Province and City under development – will be binding. Approval from TB requires agreement between Province and City to support Province having control of asset under PSAB. Working group being formed between Metrolinx, MTO, CPD and OPCD to manage review agreements and develop steps to manage risk.. Metrolinx engagement with their external auditor to determine level of assurance they can provide in current year based on current status of agreement.
Options under consideration:	N/A – given binding agreement is not yet signed and this deal will be a model for other agreements, agreement will be negotiated to support control of the assets by the Province.
Timing of expected resolution:	February 2017
Province's ability to influence:	Province can influence the economic substance of the arrangement signed with the City in order to support the continued control of the underlying transit assets by the Province.
Role of other ministries:	MTO, CPD engaged in discussions with MX on aspects of MOU and to ensure consistent understanding of anticipated accounting

5. Year-end transfers

Risk:	Low/Med Audit risk (amounts expensed are reversed during audit if there are disagreements on relevant criteria), any amounts reversed will create fiscal pressure for fiscal 2017-18
Impact in 2016-17 (billions):	\$ TBD
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Evolving view of AG regarding aspects of government year-end commitments and characteristics required to enable liability and expense recognition in advance of signed formal TP agreement.
Current status/next steps:	OPCD engaging with OAG to discuss experience and lessons learned in advance of 2017 Budget Process. OPCD has communicated change and risk to financial community (CAOs, Financial Directors).
Options under consideration:	Developing advice to ministries to mitigate risk: 1. Signed TP agreements in place by year-end 2. Flow funds by year-end Open discussion with OPCD and OAG to derive new guidance to be shared with Ministries.
Timing of expected resolution:	January 30, 2017
Province's ability to influence:	Province can work with OAG to understand views on year-end transfers and communicate guidance to Ministries. Discussions have commenced with OIAD to assess their ability to assist in Ministry reviews.
Role of other ministries:	MOECC, MEDG, others depending on year end transfers.

6. Changes to consolidation

Risk:	Low
Impact in 2016-17 (billions):	N/A
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	AG recommendation that CASSs. Individual universities under assessment. AG recommendation that BPS be consolidated in the statement of operations on a line-by-line basis. Currently balance sheet consolidation is line-by-line, but income statement is consolidated using one line.
Current status/next steps	Additional analysis required on impact if CASSs were consolidated – ministry does not have processes in place to consolidate. No bottom line impact of line by line BPS consolidation, but revenues and expenses to change by amount of 3 rd party revenue (impact on key performance indicators – interest/revenue dollar and expenses/person). Analysis of appropriate period to effect change under development.
Options under consideration:	Under consideration for the 2017 Budget and 2017-18 Public Accounts: - Consolidation of CASSs - Consolidation of BPS sector (grossed up Rev/Exp) No options for individual universities or DAAs until further review completed. Change in funding model for universities (including student grant program) to be considered.
Timing of expected resolution:	January/February 2017
Province's ability to influence:	Provincial discretion as to whether to consolidate BPS as requested by the AG (presentation issue, no fiscal impact). Consolidation of individually controlled universities, CASSs, DAAs which meet threshold tests required under PSAB (immaterial to SUDs, therefore no anticipated impact on audit opinion).
Role of other ministries:	MOF (OFA) to be involved to manage communications risks regarding consolidation MCSYS to provide details on CASSs Sector Ministeries to provide details for Hospitals, school boards and colleges as well as Q&A input TBS Coms for Q&A (ALL) PEMD to provide details on DAAs.

7. Follow up audit – contaminated sites



Risk:	Med-High Changes to estimates will impact in year deficit (audit risk associated with computation), as well as results of AG VFM follow up audit which will to be reported in 2017 AG Annual Report. Financial management/accounting policy not complete – risk of inconsistencies across ministries.
Impact in 2016-17 (billions):	No specific properties identified
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Expecting follow-up by AG on audit of implementation of contaminated sites accounting standard. Any increases/decreases in liability will impact 2016/17 deficit directly.
Current status/next steps	Draft financial management/accounting policy under development – currently circulated for review by ministries. OPCD working with OIAD re: terms for reference for OIAD follow up (to be completed to provide assurance on year-end balances) OPCD communicating with OAG on planned review of contaminated sites.
Options under consideration:	Line and sector ministry readiness for AG review. OPCD policy guidance (format, timing, stakeholdering)
Timing of expected resolution:	March – April 2017
Province's ability to influence:	Province can influence audit risk by finalizing financial management/accounting policy (goal of finalizing by March 31, 2017) and by OIAD completing their review prior to Public Accounts and AG follow up review.
Role of other ministries:	MOECC input and direction to ministries in line with OAG audit findings from 2015. CPD role in supporting ministry estimates of ongoing costs. All ministries with contaminated sites will need to ensure their current year estimates are complete.

8. Other GBE issues (H1 sale; unrealized gains/losses, H1 deferred tax and OEB decision)

Risk:	Med Despite low anticipated \$ amount of adjustments, commentary by AG in Annual Report for Audit Findings Report for any unadjusted differences could have reputational risk and also inadvertently impact Hydro One. Impact on amounts reported in Trillium Trust and AG commentary thereon also at risk.
Impact in 2016-17 (billions):	TBD
Multi-year impact:	Yes
Impact included in FES:	Yes for some
Description of issue:	OPCD to engage with OAG on appropriate accounting and estimated errors (for SUDs). OEB Deliberations on benefit of Deferred Tax Asset (Province vs. Rate Payer)
Current status:	• Draft accounting for H1 sale (tranche 2) to be reviewed by external firm including related party sale to OPG (already provided). • Accounting for unrealized gains/losses to be discussed with OAG. • OEFC to provide update on risks associated with potential OEB decision on benefit of deferred tax asset.
Options under consideration:	• Determine accounting for unrealized gains/losses in year based on materiality of estimated amounts in 2016-17. • Pending decision of OEB, ensure deferred tax benefit appropriately reflected on Province's books and Trillium Trust account.
Timing of expected resolution:	February, 2017 (decisions on eliminations/adjustments to be reflected in Budget)
Province's ability to influence:	Depending on materiality, some adjustments will be at discretion of the government (vs. SUDS impact)
Role of other ministries:	Ministry of Energy and OFA. Involved in discussion as well as OPG.

Risks:

9. Reduced materiality by AG

Risk:	High Risk that accumulated errors will exceed lower materiality threshold requiring Province to adjust financial statements.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	AG has communicated plans to reconsider (reduce) audit materiality in light of release of unaudited results for 2015/16, and path to balance. Reducing materiality would generally lead to increased audit testing and a lower threshold for reporting errors. A reduced materiality will also result in an overall lower threshold for accumulated errors.
Current status/next steps	OPCD communicating increased AG scrutiny to Ministries in updates to CAO Forum, FCC, FBMC. OPCD evaluating updated process for accumulating errors from Ministries vs. waiting for communication from AG.
Options under consideration:	N/A
Timing of expected resolution:	Materiality has historically be communicated by AG in Audit Planning Memo – draft expected in January 2017.
Province's ability to influence:	None
Role of other ministries:	All ministries will be subject to additional scrutiny.

10. Earlier Release of Public Accounts

Risk:	Medium
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Potentially earlier release date (end of July/17)
Current status:	Assessment underway on key tasks/milestones to deliver by end of July
Options under consideration:	1. Deliver Annual Report and Volumes by end of July 2. Deliver Annual Report only by end of July, to be followed by Volumes in August/September. 3. Impact on Data visualization and open data 4. Process enhancements – in OPCD as well as OAG (needed to complete audit in time to support earlier release, especially in regards to tax estimation.)
Timing of expected resolution:	Mid-January 2017
Province's ability to influence:	Province determines date of release subject to legislative requirements and on AG's ability to complete her audit.
Role of other ministries:	All ministries will be impacted by an earlier release date.

11. Implementation of Hyperion Financial Management

Risk:	Medium Audit risks to be minimized by relying on legacy systems for 2016/17 Public Accounts. Resource requirements of APFR staff will be high during planned parallel run in addition to earlier planned release for the Public Accounts. Unanticipated audit issues as experienced in 2016 will cause further stress on resources required for the parallel run as well as Public Accounts related processes.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Implementation of Corporate Hyperion Information Reporting Portal in parallel with early release of Public Accounts.
Current status:	CHIRP related considerations integral to discussions on early release date.
Options under consideration:	N/A
Timing of expected resolution:	N/A
Province's ability to influence:	N/A
Role of other ministries:	OAG to audit controls during 2016/17 public accounts audit. Line and sector ministries to learn how to bet use new system.

12. Implementation of New Standards

Risk:	Medium/Low No fiscal impact associated with new standards; however, various stakeholders will have to be involved to ensure completeness and integrity of information required for disclosure. Process will be subject to review by the OAG.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	New standards on related parties and contractual rights to be implemented in 2017/18 requiring planning to ensure that appropriate data available for disclosure.
Current status:	OPCD engagement with OAG on-going to ensure key questions discussed and implementation guidance robust.
Options under consideration:	N/A
Timing of expected resolution:	February, 2017
Province's ability to influence:	Unique to each Province, depending on relative interpretations of PSAB.
Role of other ministries:	TBS – OIAD LSB – restrictions on disclosure for RPT and contractual rights.

From: [Bonnie Lemcke](#)
To: ["cindy.veinot@ontario.ca"](mailto:cindy.veinot@ontario.ca)
Cc: [Nadine Petsche \(MOF\)](#); ["sarah.hosick@ontario.ca"](mailto:sarah.hosick@ontario.ca); [Ken Kandeean](#); [John Psinas](#); [Lynsey Wynberg](#); [Gadi Mayman](#)
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date: Tuesday, February 14, 2017 10:53:53 AM
Attachments: [Expert advisory panel agrees with Ontario in pension accounting issue \(February 14, 2017\).docx](#)

Hi Cindy,

Here is another article on the pension issue that we have been asked to review. They would like to send this out as soon as possible.

Bonnie

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Tuesday, February 14, 2017 10:31 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Bognar, Tom <Tom.Bognar@cibc.com>
Subject: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hello Bonnie,

Here is the draft research note. Your review for factual accuracy would be much appreciated.

Thank you,

Maria

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Expert advisory panel agrees with Ontario in pension accounting issue
(February 14, 2017)

Credit Implications: Potentially positive

Credit Ratings: DBRS AA(Low), Moody's Aa2, S&P A+, Fitch AA-, All outlooks stable

Yesterday, an expert accounting advisory panel engaged by the Province of Ontario to review the province's accounting practices for pension assets released its report. The report sided with the province in concluding that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements. The panel concluded that it should be reported for the following reasons:

- Recognizing the asset will provide a faithful representation of the province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the province's share of the assets in Public Accounts.

For the full report [Click Here](#)

The implications of this conclusion is that the province will have more financial flexibility to achieve its financial targets if it chooses to return to the pension accounting treatment it had used in the past. Adopting the Auditor General's treatment has resulted in an upward adjustment to the accumulated deficit as well as higher pension expense in fiscal 2015-16 and in future years. More information about these adjustments is provided below in the "Background" section.

The Auditor General is reviewing the report and is expected to comment in the near future. For the Province of Ontario's fiscal 2015-16 results, the Auditor General issued a qualified opinion because, although the statements adopted the Auditor General's pension accounting treatment for fiscal 2015-16, it did not retroactively restate the comparative 2014-15 public accounts and, therefore, by not correcting the error in accounting treatment, it constituted a departure from Public Sector Accounting Standards (PSAS).

At the same time, the preparer of the financial statements (Treasury Board Secretariat) who felt that they were and have always been in compliance with PSAS, signed off on fiscal 2015-16 results, but only following the adoption by the Province of Ontario of the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment").

Background

In our Ontario Talking Points (January 27, 2017) research note we provided the following background information on this issue.

Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.
- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
- Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional \$10.7bln being added to the net debt and accumulated deficit and an increase of \$1.5bln to the annual deficit for 2015-16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015-2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of \$2.2bln in 2016-17, \$2.8bln in 2017-18, and \$3.7bln in 2018-19 to the annual Pension Adjustment.

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From: [Young, Gwendolynne \(MOF\)](#)
To: [Elizabeth Mendes \(MOF\)](#); [Ghiassi, Ali \(MOF\)](#); [Christina Zhang](#); [Gadi Mayman](#); [Birks, Ryan \(MOF\)](#); [Daniel Tiburcio \(MOF\)](#)
Subject: FW: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
Date: Friday, January 06, 2017 5:49:06 PM
Attachments: [Final - Deputy Minister Pension Asset Update.pptx](#)

Hi all,

Attached is the deck for the Chair of the Asset Panel briefing on Monday.

Gwen Young

p: 416.325.0741 | bb: 647.982.2419

From: Nelson, Dane (TBS)
Sent: January 6, 2017 5:41 PM
To: Young, Gwendolynne (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS)
Subject: RE: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hi Gwen,

Please find the deck attached for your review.

Regards,

Dane Nelson, Senior Policy Advisor

Treasury Board Secretariat | Deputy Minister's Office

Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

From: Young, Gwendolynne (MOF)
Sent: January-06-17 5:39 PM
To: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS)
Subject: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hey there – are there materials in advance for this briefing, or will they be walked in?

Thanks,
Gwen.

Gwen Young

Senior Policy Advisor

Deputy Minister's Office | Ministry of Finance

p: 416.325.0741 | bb: 647.982.2419

Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued
- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan
- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit
 - Each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements
- Recognizing the asset will provide a faithful representation of the Province's financial position
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in plan both on a present value basis

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
 - Distinguish requirements for surplus withdrawals from contribution reductions
 - Specifically discuss control requirements in JDBPs
- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable
- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
 - whether the method used to settle an obligation should affect how that obligation is measured, and
 - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).
- January 16th – Completion of final report and Executive Summary for the OPSEUPP and OTPP.
- January 23rd – Draft supplemental report, on HOOPP and CAATPP, submitted to the Panel by the report writer for comments.
- February 3rd – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office
- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Paul Martin (accountant) – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
- The requirement regarding control with respect to recognizing a pension asset for other pension plans
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

From: [Ken Kandeepan](#)
To: [Gadi Mayman](#)
Cc: [Anna Strathy](#)
Subject: FW: Ontario 2016/17 Public Accounts Beats Budget Projections
Date: Sunday, September 10, 2017 12:30:01 PM
Attachments: [Ontario 2016-17 Public Accounts Beats Budget Projections \(September 7, 2017\).pdf](#)

Hi Gadi

I am sure you would have seen this, if not... In any event a reasonable and fair assessment of the pension issue by Maria

Thanks

Ken k

From: CIBC CM Macro Strategy [mailto:Mailbox.CIBCCMMacroStrategy@cibc.com]
Sent: Thursday, September 07, 2017 5:57 PM
Subject: Ontario 2016/17 Public Accounts Beats Budget Projections

CIBC Capital Markets

Macro Strategy

Ontario 2016/17 Public Accounts Beats Budget Projections

September 7, 2017

Credit Implications: Moderately Positive

Credit Ratings: DBRS AA (low), Moody's Aa2, S&P A+, Fitch AA-, All Outlooks Stable

Today Ontario released its 2016/17 Public Accounts showing a deficit of -\$991mln, an improvement of \$3.3bln when compared to the 2016 Budget and \$0.5bln relative to the 2017 Budget.

The year-end results received a qualified opinion from the Auditor General reflecting a difference in opinion regarding the interpretation of accounting for pensions under Canadian Public Sector Accounting Standards. A reconciliation of the statements show that the deficit would have been - \$2.435bln if the Province would have applied the Auditor General's interpretation of the standards. As well, Net Debt would have been \$12.4bln higher. The Province's professional staff have a different interpretation and, earlier this year, engaged an expert panel of accountants to review the matter. In the end, the panel sided with the Province. For more information on the pension issue, please see our research note "Expert advisory panel agrees with Ontario in pension accounting issue" [Click Here\[cibcmacro.com\]](#)

- In addition to the change in accounting for net pension assets of jointly sponsored pension plans, there were other "Accounting Changes to Ontario's Financial Statements" which bring reporting more in line with "PSAB standards and the reporting practices of other senior Canadian governments." For more information on this, please [Click Here\[news.ontario.ca\]](#).

\$million	2017	2016
Annual deficit as presented	(991)	(3,515)
Effect of valuation allowance on:	(1,364)	(1,480)
Education expense	(80)	(351)
General Government and other expense	-	-

Annual deficit in accordance with Canadian public sector accounting standards	(2,435)	(5,346)
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	(314,077)	(306,357)

Source: Ontario 2016/17 Public Accounts

Although Ontario's improved results reflect in part a change in basis of accounting for pensions, we view these results as constructive towards the end goal of returning to balance in Fiscal 2017/18. The expected return to balance puts the Province on track to eventually getting a positive review from Standard & Poor's who downgraded it in 2015. However, we believe an outlook change to positive is more likely to occur after the election on June 7, 2018. The rating agency will be looking for more comfort that the elected government will remain steadfast in its goal of reducing debt to pre-recession levels.

In the 2017 Budget, the Province set an interim target to reduce debt to 35% by 2023-24. Its long-term target is to reduce this figure to the pre-recession level of 27%, which is currently shown being met by 2029-30.

S&P Ratings Scorecard: Province of Ontario	
Date	Jun-15-2017
Rating	A+
Outlook	Stable
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very high
Contingent Liabilities	Low

Source: S&P

While Ontario appears on track to returning to balance, it has a formidable capital program that will require debt funding. As presented in the 2017 Budget, Ontario's capital program is projected to total \$190bln over a 13-year period that started in 2014/15.

Funding for the program will factor in the implications of both the Federal and Provincial climate change plans, Federal funding and infrastructure needs. The latter will need to take into account renewal, replacement and growth. The particulars of all these aforementioned factors continue to evolve.

Earlier this year, the Federal government announced that it will fund 43% of the Province's \$4.4bln upgrades to the GO Transit Regional Express Rail. The Province had previously committed to funding 100%.

The Hydro One privatization strategy, which is largely concluded, has been a means to fund part of Ontario's capital program. For more information on the Hydro One privatization, please see our note "Ontario Sells Final Stake in Hydro One" [Click Here\[cibcmacro.com\]](http://cibcmacro.com)

Overall, we consider today's announcement to be moderately positive. The results reflected a combination of stronger revenues from better than projected economic growth and effective cost management.

2016/17 Public Account Highlights:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of \$140.7bln, up \$2.2bln from the 2016 Budget projection
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- Interest on debt of \$11.7bln, down \$0.7bln from the 2016 Budget projection

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Tom Bognar, CFA

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Ontario 2016/17 Public Accounts Beats Budget Projections

September 07, 2017

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From: [Kim, Minzi \(MOF\)](#)
To: [Giroux Namian, Orli \(MOF\)](#); [Martin, Jessica \(MOF\)](#); [Moore, Brynne \(MOF\)](#); [Koukoulas, Sophia \(MOF\)](#); [Elizabeth Mendes \(MOF\)](#)
Cc: [David McLean \(MOF\)](#); [Jamille Clarke-Darshanand \(MOF\)](#); [Matthew Sylvain \(MOF\)](#); [Martha Maloney \(MOL\)](#); [Tibando, Lindsay \(MOF\)](#); [Dianne Lone \(MOF\)](#); [Peter Spadoni \(MCYS\)](#); [Tim Schuurman \(MOF\)](#); [Birks, Ryan \(MOF\)](#); [Ghufran Tarin \(MOF\)](#); [Anna Strathy](#); [Gadi Mayman](#); [Rob Gray \(MOF\)](#); [Brian Lewis \(MOL\)](#)
Subject: FW: Public Accounts - Supporting Materials (Consolidated)
Date: Thursday, September 07, 2017 11:53:18 AM
Attachments: [PA 2016-17 Sousa Briefing 2016-17 Final.pptx](#)
[QAs - PA v2.docx](#)
[Sousa PA remarks Sept 5 2017 v1 CSB policy.docx](#)
[DRAFT-Top Ten OA-Public Accounts-v24_20170906_CLEAN.DOCX](#)
[PA2016-17 Technical Questions & Answers.docx](#)
[DRAFT_Public Accounts 2016-17 OA September 6 2017_CLEAN.DOCX](#)
[PA 2016-17 NR_FINAL.DOCX](#)
[PA 2016-17 NR Backgrounder Acct Changes_FINAL.DOCX](#)
[PA 2016-17 Media Advisory_FINAL 2 COPO.DOC](#)

Updated:

- ***Final** - News Release
- ***Final** - Backgrounder
- TBS – Top Media Q&A
- ***Update** - TBS – Comprehensive Q&A (Captures MOF items in more details)
- ***New** – TBS – Technical Q&A
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck
- ***New** – Media Advisory

From: Kim, Minzi (MOF)

Sent: September 7, 2017 10:58 AM

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Subject: Public Accounts - Supporting Materials (Consolidated)

Hello -

Here's the complete list of all the Public Accounts supporting materials that are being prepared by TBS & MOF

- News Release
- Backgrounder
- TBS – Top Media Q&A
- *TBS – Comprehensive Q&A (Captures MOF items in more details)
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck

Please note that majority of these Comms products are still moving, we will share the updated versions as they come in.

Thank you,
Minzi



**OFFICE OF THE PROVINCIAL
CONTROLLER DIVISION**

2016-17 Public Accounts

Highlights Deck

September 7, 2017

Confidential – For Internal Discussion Purposes

2016-17 Financial Highlights



- **2016-17 deficit is \$1.0 billion**
 - \$3.3 billion lower than the projected \$4.3 billion deficit in the 2016 Budget.
 - \$0.5 billion lower than the \$1.5 billion interim forecast presented in the 2017 Budget.
 - \$2.5 billion lower than 2015-16 deficit of \$3.5 billion*.
- **Revenues are \$140.7 billion****
 - \$2.2 billion, or 1.6%, higher than the projected \$138.5 billion in the 2016 Budget.
 - \$0.6 billion, or 0.4%, lower than the projected \$141.3 billion interim forecast in the 2017 Budget.
- **Expenses are \$141.7 billion****
 - \$0.1 billion, or 0.1%, lower than the projected \$141.8 billion in the 2016 Budget.
 - \$1.1 billion, or 0.8%, lower than the \$142.8 billion interim forecast presented in the 2017 Budget.
- **Net debt is \$301.6 billion, an increase of \$6.2 billion in 2016-17. This increase is due to:**
 - Additional borrowing to finance the operating deficit and investments in infrastructure.
- **The Auditor General has issued a qualified Audit Opinion for the 2016-17 Public Accounts, based on a different interpretation of accounting methods for net pension assets and recognition of Independent Electricity System Operator market accounts.**

* 2015-16 deficit restated for removal of impact of regulated pension accounting

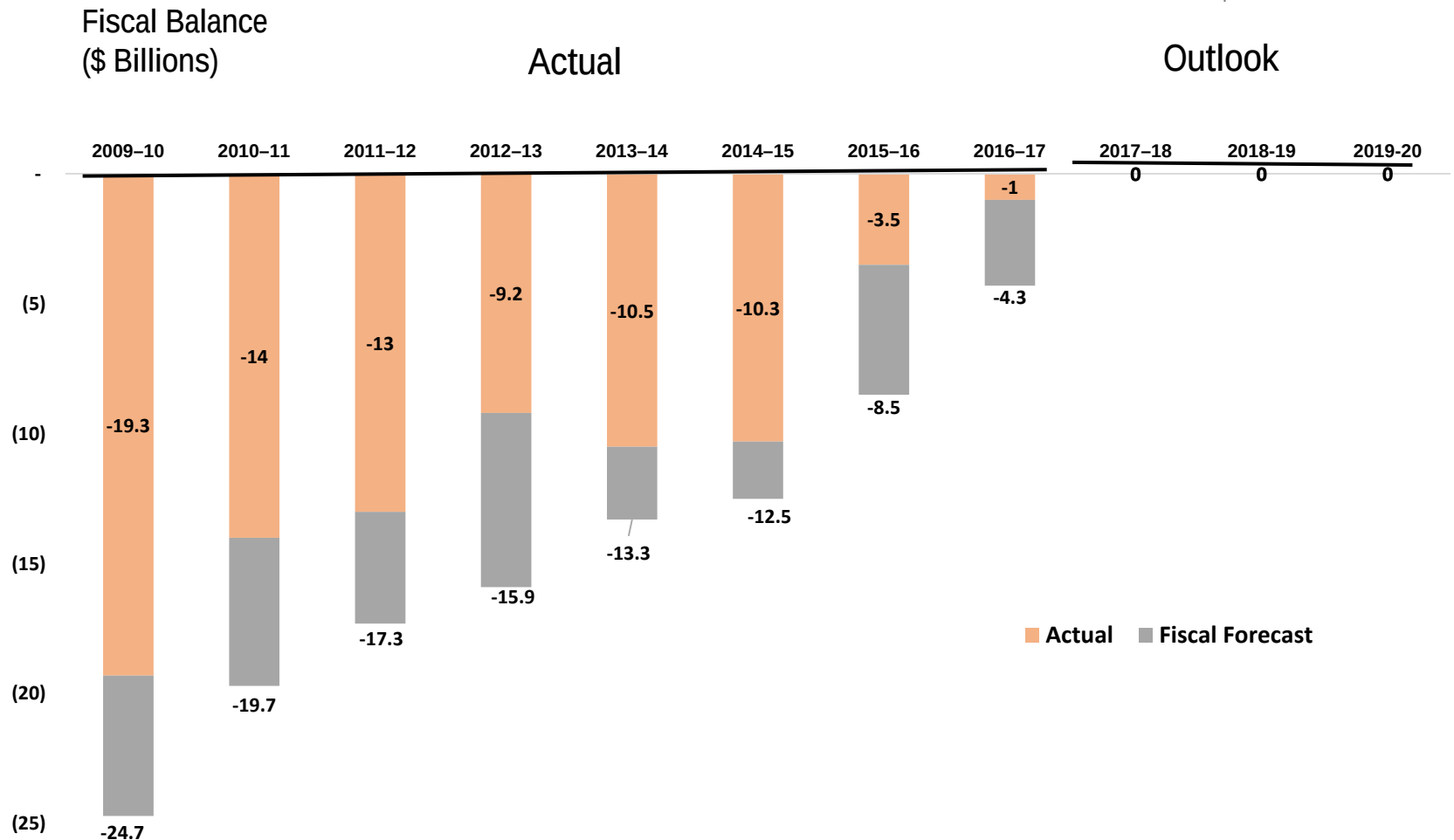
** Revenues for 2016-17 include third party revenues of hospitals, school boards and colleges. In previous years, these third party revenues were netted against the respective sector expenses. This change in presentation increased revenue and expenses by approximately \$8 billion in 2016-17 and \$7.5 billion in 2015-16. This change has no impact on the annual deficit. The prior year financial information and the 2016 Budget have been reclassified to reflect this change.

Auditor General Opinion



- Two qualifications in the audit opinion
 - Pension assets (\$12.4 billion increase to net debt and accumulated deficit; \$1.4 billion increase to deficit → \$2.4 billion deficit per AG)
 - Pension Panel identified as a “non-authoritative” source on application of Public Sector Accounting Standards (PSAS)
 - Independent Electricity Systems Operator (IESO) changed its accounting policy to recognize \$1.6 billion market accounts assets and the same amount in liabilities (market accounts track mainly buy and sell transactions between electricity power generators and distributors)
 - No impact to annual deficit, net debt or accumulated deficit
 - Other matters paragraphs in opinion
 - Rate-regulated accounting used by IESO in year not permitted under PSAS (used by IESO in year, but impact not material)
 - Future potential material misstatement resulting from “legislated accounting” in Fair Hydro Plan legislation and related regulations;
 - FSD&A does not reflect pension accounting or market accounts appropriately

Ontario's Plan to Eliminate Deficit



¹ Represents the 2017 Budget outlook for 2017-18 to 2019-20. For 2009-10 to 2016-17, actual results are presented. The 2015-16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the 2016 Budget and as described in the 2016-17 Third Quarter Finances.

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; 2015-16 is based on the 2015 Budget.

Highlights: Financial Results



2016-17 Results (as of August 25)								
\$ Billions	Budget	Interim	2016-17 Results	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues	138.5	141.3	140.7	136.1	2.2	1.6%	(0.6)	-0.4%
Expenses								
Programs	129.4	130.9	130.0	128.1	0.6	0.5%	(0.9)	-0.7%
Interest on Debt	12.4	11.9	11.7	11.6	(0.7)	-5.6%	(0.2)	-1.7%
Total Expenses	141.8	142.8	141.7	139.7	(0.1)	-0.1%	(1.1)	-0.8%
Reserve	1.0	-	-	-	(1.0)		-	
Deficit Before Outstanding Items	(4.3)	(1.5)	(1.0)	(3.5)	3.3	-76.7%	0.5	-33.3%

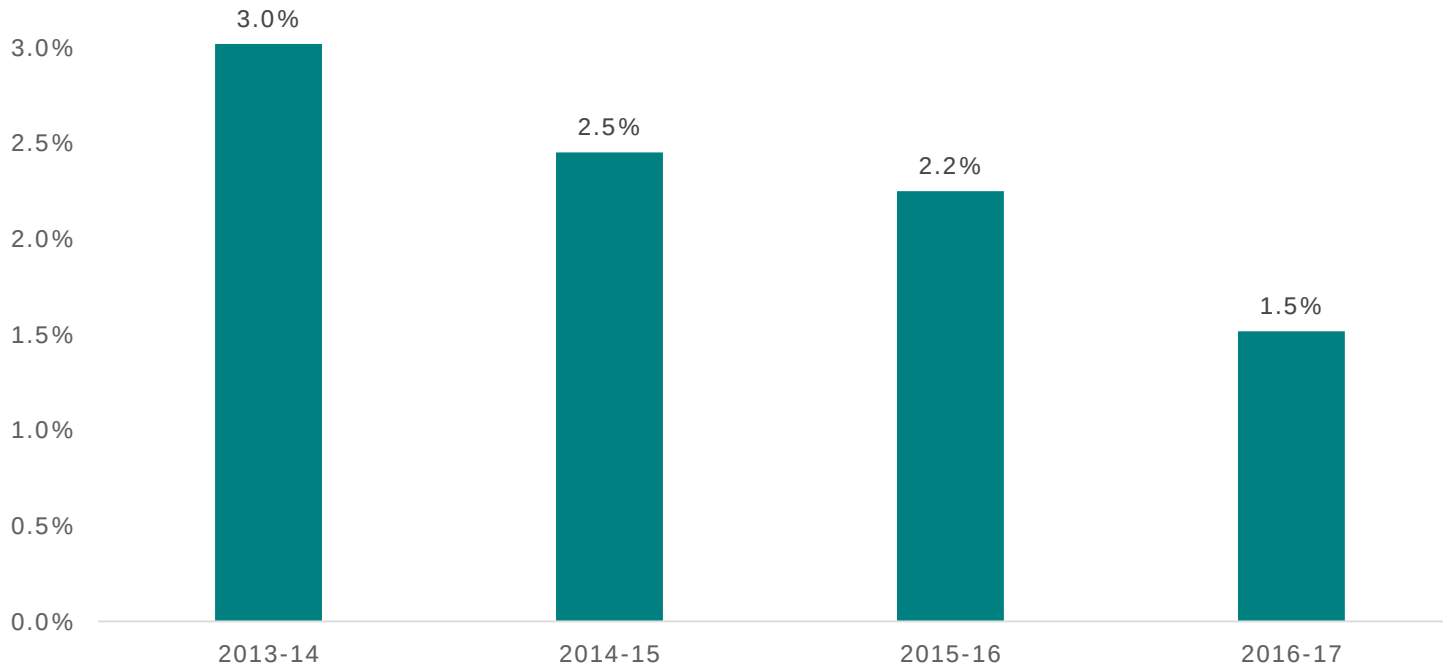
Notes:

(1) For discussion purposes only. Subject to change pending public release.

(2) Budget and Interim numbers are re-stated for BPS line by line reporting (no fiscal impact). 2015-16 Actual have been restated for the reversal of regulated accounting for pensions (published 2015-16 deficit was \$5.0 billion).

(3) Budget/Interim numbers may not add due to rounding.

Annual Program Expense Growth Rate: 2013-14 to 2016-17



Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Communications



Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is \$991 million**. This result is **\$3.3 billion lower** than the \$4.3 billion projected in the 2016 Budget. It is **\$0.5 billion lower** than the interim projection in the 2017 Budget of \$1.5 billion.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. This is part of Ontario's commitment to [Open Government](#).
- The government will continue to build on its track record of responsible fiscal management.

Strategy

- **High profile, proactive, short term** communications approach via traditional, digital and social media.
- Remain **neutral** and **factual**, balancing need for gov't to clearly state its position, while demonstrating respect for all parties involved.
- **Promote** strong financial management, and transparency and accountability.
- **Leverage open data** and other digital components to **profile achievement of 2016 budget commitments**.
- Mitigate potential issues with strong issues management plan.

Communications cont'd



Rollout

- Public release on **September 7** via joint TBS and MOF Ministers' **press conference** and **province-wide news release** with backgrounder.
 - **Technical briefing for media** in advance to present accounting changes, including Ontario's position on accounting for pension assets and IESO in a factual, neutral manner.
- Tactics and messaging will be **reassessed**, as needed, to respond to **AG's position**.

Considerations

- Public Accounts specific:
 - AG's qualified audit opinion (pension asset accounting, IESO accounting treatment of market accounts)
 - AG's criticisms regarding the use of rate-regulated accounting by IESO
 - BPS presentation change
- Other:
 - Questioning balanced budget narrative
 - Growing debt burden
 - Relationship with AG and her criticism of the Fair Hydro Plan

APPENDIX

Revenues – 2016-17 Interim vs. Actual



2016-17 Results (as of August 25)								
\$ Millions	Budget	Interim	2016-17 Actual	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues								
Tax Revenue	91,819	95,063	94,346	91,818	2,527	2.8%	(717)	-0.8%
Transfers from Government of Canada	25,138	24,819	24,544	23,141	(594)	-2.4%	(275)	-1.1%
Income from Government Business Enterprise	5,027	5,297	5,567	4,909	540	10.7%	270	5.1%
Fees, Donations and Other Revenue from Hospitals, School Boards and Colleges	7,404	7,683	7,957	7,493	553	7.5%	274	3.6%
Other Revenue	9,094	8,468	8,320	8,787	(774)	-8.5%	(148)	-1.7%
Total Revenue	138,482	141,330	140,734	136,148	2,252	1.6%	(596)	-0.4%

Consolidated Expense By Ministry Interim vs. Actual (\$M)



	Budget	2016-17 Interim	2016-17 Results	Budget Variance	Budget % Change	Interim Variance	Interim % Change
Aboriginal Affairs	77	99	128	51	66.2%	29	29.3%
Agriculture, Food and Rural Affairs	916	1,074	1,031	115	12.6%	(43)	-4.0%
Attorney General	1,868	1,942	1,937	69	3.7%	(5)	-0.3%
Board of Internal Economy	220	226	219	(1)	-0.5%	(7)	-3.1%
Children and Youth Services	4,346	4,392	4,379	33	0.8%	(13)	-0.3%
Citizenship, Immigration and International Trade	221	179	176	(45)	-20.4%	(3)	-1.7%
Community and Social Services	11,470	11,710	11,627	157	1.4%	(83)	-0.7%
Community Safety and Correctional Services	2,648	2,689	2,681	33	1.2%	(8)	-0.3%
Economic Development, Employment and Infrastructure/Research and Innovation	1,796	1,395	1,234	(562)	-31.3%	(161)	-11.5%
Education	26,545	26,726	26,581	36	0.1%	(145)	-0.5%
Teachers' Pension	(452)	(502)	(377)	75	-16.6%	125	-24.9%
Energy	393	926	920	527	134.1%	(6)	-0.6%
Environment and Climate Change	531	531	523	(8)	-1.5%	(8)	-1.5%
Executive Offices	44	49	47	3	6.8%	(2)	-4.1%
Finance	966	899	841	(125)	-12.9%	(58)	-6.5%
Interest on Debt	12,412	11,908	11,709	(703)	-5.7%	(199)	-1.7%
Municipal Partnership Fund	505	505	526	21	4.2%	21	4.2%
Power Supply Contract Costs	643	739	838	195	30.3%	99	13.4%
Government and Consumer Services	607	617	600	(7)	-1.2%	(17)	-2.8%
Health and Long-Term Care	55,786	56,345	56,025	239	0.4%	(320)	-0.6%
Labour	309	310	308	(1)	-0.3%	(2)	-0.6%
Municipal Affairs and Housing	1,060	1,541	1,544	484	45.7%	3	0.2%
Natural Resources and Forestry	819	862	859	40	4.9%	(3)	-0.3%
Northern Development and Mines	791	837	814	23	2.9%	(23)	-2.7%
Office of Francophone Affairs	6	5	5	(1)	-16.7%	-	0.0%
Tourism, Culture and Sport	1,339	1,537	1,540	201	15.0%	3	0.2%
Training, Colleges and Universities	10,198	10,182	10,131	(67)	-0.7%	(51)	-0.5%
Transportation	3,850	3,688	3,637	(213)	-5.5%	(51)	-1.4%
Treasury Board Secretariat	322	251	240	(82)	-25.5%	(11)	-4.4%
Contingency Fund	1,200	30	-	(1,200)	-100.0%	(30)	-100.0%
Employee and Pensioner Benefits	1,152	1,163	1,002	(150)	-13.0%	(161)	-13.8%
Year End Savings	(800)			800	-100.0%		
Total Expense	141,788	142,855	141,725	(63)	0.1%	(1,130)	-0.8%

**Ontario Public Accounts
Sept. 7, 2017
Q&As**

Key Messages:

- The Ontario economy remains strong and has continued to grow and create jobs in an uncertain global environment.
- This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$0.5 billion lower than the interim projection in the 2017 Budget.
- Balancing the budget means the government can invest more in the programs and services that people rely on.

Q&As:

What is Ontario's fiscal outlook? Has it changed since you released the 2017 Budget?

In 2010 we made a commitment to restore balance in 2017–18 and we delivered on that commitment. We are also projecting continued balance in both 2018–19 and 2019–20.

This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Budget.

Balancing the budget means the government can invest more in the programs and services that people rely on.

What is the current outlook for the Ontario economy?

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

How does the Bank of Canada interest rate increase affect economic growth in Ontario?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost. That cost is also impacted by other factors, including revisions to the U.S. Federal Funds Rate.

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Didn't the FAO say that the Province's economic growth and revenue projections are too optimistic?

Over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth outpacing all the G7 countries over the last three years.

Since the FAO released their post-Budget analysis most private-sector economists have revised up their forecast for Ontario real GDP growth, reflecting the strength of the Ontario economy.

According to the average of private-sector forecasts, Ontario real GDP growth in 2017 has risen to 2.8% from 2.4% at the time of the Budget. As well, over the next four years Ontario real GDP growth is expected to average 2.3% annually, up from 2.1% annually at the time of the Budget. The outlook for nominal GDP growth has seen a larger improvement.

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

Minister Sousa's Speaking Notes
Media Avail Sept. 7, 2017
Public Accounts of Ontario 2016-17

- The release of the [2016-17](#) Public Accounts is an important time for the Government of Ontario.
- The accounts demonstrate how we are improving the everyday lives of the people of Ontario.
- Our plan is working.
- Ontario is projected to balance the budget in 2017-18.
- We are restoring balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.
- Managing spending has been a priority for us, and we are proud to say today Ontario has the lowest per-capita program spending among all Canadian provinces.
- And we are making investments in key services such as health care and education, while at the same time lowering costs for necessities like electricity and child care.
- With a balanced budget we can continue to make investments in these key areas while also responding better to unexpected economic or demographic changes.
- Balancing the budget is not just about the bottom line — it's about helping families and businesses by providing the supports they need to succeed.

- In addition to balancing the budget, we're also tackling debt. Our continued focus on capital investment is contributing to economic growth — and that means the GDP is growing more quickly than debt.
- Since 2010, Ontario's economic performance has remained strong.
- This growth will help us lower Ontario's net debt-to-GDP ratio to the pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- Ontario's recovery from the global recession was driven by sticking to key economic principles and supported by long-term job recovery through our large-scale infrastructure investments.
- We will continue to move forward on our path to balance while building a stronger and more vibrant Ontario we can all be proud of.
- Thank you.

PUBLIC ACCOUNTS 2016-17

Top Media Qs & As

September 6, 2017

1. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

- 5. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary.

The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. . How is the government preparing for this and will this affect your ability to maintain a balanced

budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017-18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has

invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

Public Accounts 2016–17

Technical Questions & Answers

ACCOUNTING CHANGES	1
IESO - ACCOUNTING CHANGES.....	1
PENSION - ACCOUNTING CHANGES	2
HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES	3
PRESENTATION CHANGE TO BPS ORGANIZATIONS	4
DEBT	5
RISK MANAGEMENT	7
INTEREST ON DEBT (IOD)	8
DEBT MANAGEMENT.....	9
REVENUE	11
EXPENSES BY SECTOR.....	16
HEALTH	16
Summary of 2016-17 Budget to Actual Variance Analysis	16
Summary of Five Year Expense Actual Variance Analysis	16
EDUCATION	17
Summary of 2016-17 Budget to Actual Variance Analysis	17
Summary of Five Year Expense Actual Variance Analysis	17
CHILDREN'S & SOCIAL SERVICES	18
Summary of 2016-17 Budget to Actual Variance Analysis	18
Summary of Five Year Expense Actual Variance Analysis	18
JUSTICE	19
Summary of 2016-17 Budget to Actual Variance Analysis	19
Summary of Five Year Expense Actual Variance Analysis	19
OTHER PROGRAMS.....	20
Summary of 2016-17 Budget to Actual Variance Analysis	20
Summary of Five Year Expense Actual Variance Analysis	20
ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND	
PENSIONER BENEFITS	21
TEACHER'S PENSION PLAN	21
EMPLOYEE AND PENSIONER BENEFITS	22
HEALTHCARE OF ONTARIO PENSION PLAN	23
COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN	23
INFRASTRUCTURE	24
Infrastructure Expenditures Table	24
CORPORATE AND ELECTRICITY FINANCE DIVISION	27
Asset Optimization and the Trillium Trust.....	27
ELECTRICITY SECTOR	29
2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast].....	29
2016–17 vs Interim 2016-17 [Actual vs Interim Forecast].....	30
2016–17 vs 2015-16 [Actual vs Previous Year].....	31
Electricity Sector Stranded Debt	32
RESERVE FUND.....	33
RESULTS VERSUS 1 ST QUARTER REPORT	34
UNCOLLECTIBLE ACCOUNTS RECEIVABLE.....	35
LOSSES DELETED FROM THE ACCOUNTS.....	37

ACCOUNTING CHANGES

IESO - ACCOUNTING CHANGES

Q. What were the accounting changes made by IESO in its financial statements?

- A. As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

In addition, the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by the IESO on behalf of the IESO administered market at year end.

Q. What is the impact of IESO's accounting changes to the Province's Consolidated Financial Statements?

- A. Given the IESO prepared its financial statements using Public Sector Accounting Standards and its auditor issued an un-qualified audit report for 2016 financials, Province will consolidate IESO using similar accounting as adopted by the IESO and reflected in its 2016 financials. There would be no fiscal impact for market accounts; however, IESO's adoption of rate-regulated accounting resulted in a decrease of \$82 million in the 2016–17 opening accumulated deficit, and an increase in the 2016–17 annual deficits by \$24 million.

PENSION - ACCOUNTING CHANGES

Q. What were the pension accounting changes made by the Province in its Consolidated Financial Statements?

- A. The 2016–17 Consolidated Financial Statements reflect a change in accounting for net pension assets of the Province's jointly sponsored pension plans, as compared to the 2015–16 Consolidated Financial Statements. The change affects the Province's accounting for both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

In the 2015–16 Consolidated Financial Statements, the Province legislated the accounting treatment for pension assets of OTPP and OPSEUPP in order to reflect the Auditor General of Ontario's view that a full valuation allowance was required based on the view that the government does not have a legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or, in the absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions. The legislation required that a full valuation allowance be recorded against the pension assets of OTPP and OPSEUPP, therefore writing down the value of the assets as at March 31, 2016, to nil.

After significant consultation, including consideration of the recommendations of the Pension Asset Expert Advisory Panel, the Province has confirmed that the accounting for its jointly sponsored pension plans prior to 2015–16 was appropriate and in accordance with Public Sector Accounting Standards. The 2016–17 Consolidated Financial Statements reflect the confirmed accounting treatment and record pension assets on the same basis as used by the Province in preparing its Consolidated Financial Statements prior to 2015–16.

HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES

Q. What were the accounting changes made by the Province to consolidate Hydro One and Ontario Power Generation in its Consolidated Financial Statements?

- A. Commencing April 1, 2016, the Province is accounting for the results for Hydro One Limited and Ontario Power Generation using the modified equity basis and IFRS (including IFRS 14). Previously, the Province had used Generally Accepted Accounting Principles in the United States (US GAAP), the accounting standards used by these entities in preparing their stand-alone financial statements, in applying the modified equity basis. Historically, the difference between IFRS and US GAAP with respect to the annual deficit of the Province was not material.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of \$1.6B. The transitional adjustment is predominantly related to the difference in accounting for Asset Retirement Obligation and pension and other post-employment benefits.

PRESENTATION CHANGE TO BPS ORGANIZATIONS

Q. Why is the Province changing its accounting of its BPS organizations (i.e. hospitals, school boards and colleges)?

- A. Province changed the presentation of hospitals, school boards and colleges to present third-party revenues of these organizations with revenues of the Province. Previously third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses. The change was made to fully comply with Public Sector Accounting Standards. For comparability and consistency purposes, the prior years' results and the 2016 Budget have been reclassified to reflect this change in presentation.

Q. What are the impacts of the change on the deficit / debt of the Province and key financial indicators?

The presentation change increases the total revenues and expenses of the Province, but does not affect the annual deficit, net debt or accumulated deficit of the Province. Therefore, there is no change to key financial indicators related to annual deficit, net debt or accumulated deficit.

The Province's interest on debt expenses will increase marginally since the interest expense of BPS entities previously included in sector expenses will now be presented as part of the Province's interest on debt expense. However, since total revenues will be grossed up, the debt charge to total revenue and net debt to total revenue will be favorably impacted.

Total program spending per capita will be higher due to the gross up of program expense.

DEBT

Q. Why did net debt increase by \$6.3 billion, from \$295.4 billion as at March 31, 2016 to \$301.6 billion as at March 31, 2017?

A. Net debt is the province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of \$6.3 billion in net debt is primarily due to the deficit and investments in capital assets.

Q. Why did net debt to GDP decrease from 38.7 percent as at March 31, 2016 to 37.8 percent as at March 31, 2017?

A. The decrease in net debt to GDP is mainly due to GDP growing at a faster rate than net debt. The government is committed to eliminating the deficit by 2017-18 and then reducing the net debt to GDP ratio to the pre-recession level of 27 per cent.

Q. How do you explain the \$5.7 billion increase in total debt from \$327.4 billion at March 31, 2016 to \$333.1 billion at March 31, 2017?

A. The increase in \$5.7 billion in total debt is due to borrowing for the deficit (\$1.0 billion) and the net change in capital assets (\$4.7 billion) for 2016-17.

Q. Why has total debt gone up by \$5.7 billion while the accumulated deficit has gone up by only \$1.5 billion?

A. Total debt represents all borrowing that is used to fund the deficit, as well as to invest in capital assets and cash reserves. Accumulated deficit is the sum of all deficits less surpluses since Confederation.

Total debt increased by \$5.7 billion primarily in order to fund the deficit as well as the Province's investments in capital assets, which are not reflected in the deficit.

Q. What is the difference between total debt and net debt?

A. 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. Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q. Why has net debt increased by \$0.27 billion from the interim estimate in the 2017 Budget, while total debt has increased by \$0.7 billion from the interim estimate?

A. Net debt is the province's total debt and other liabilities, less its financial assets.

Net debt increased by \$0.27 billion from the interim estimate primarily due to:

- o \$0.53 billion decrease from the interim deficit, offset by a \$0.26 billion impact relating to various other adjustments as evidenced in the audited Consolidated Statement of Net Debt (Ontario Nuclear Funds, Tangible Capital Assets, IFRS transitional impact for OPG and Hydro 1, pension adjustments and other).

Total debt is all of the Province's borrowings. The total amount borrowed has increased by \$0.7 billion from the interim estimate primarily due to the increase in short term borrowing.

Q. How will the 2016-17 Public Accounts affect the borrowing requirement for 2017-18?

A. As in past years, any changes in the borrowing requirement arising from Public Accounts will be determined as part of the 2017 Economic Outlook and Fiscal Review.

Q. How much debt was issued in 2016-17, and how much debt matured during the year under the Province's borrowing program?

A: The Province completed an annual borrowing program of \$27.0 billion in 2016-17.

Long-term debt maturities per the 2017 Budget were \$20.9 billion.

RISK MANAGEMENT

Q. What is your current policy on foreign currency exposure?

- A. The Province limits itself to a maximum foreign exchange exposure of 5 per cent of Debt Issued for Provincial Purposes. The foreign currency exposure as at March 31, 2017 was 0.2 per cent.

Q. What is your current policy on controlling interest rate exposure?

- A. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of Debt Issued for Provincial Purposes. The interest rate exposure as at March 31, 2017 was 11.2 per cent.

INTEREST ON DEBT (IOD)

Q. Why is the Actual IOD for 2016-17 of \$11,709 million lower by \$703 million than the 2016 Budget (restated) forecast of \$12,412 million?

A. IOD is \$703 million lower than the forecast in the 2016 Budget primarily because of lower than forecast deficit, lower than forecast interest rates projected in the 2016 Budget and cost-effective debt management.

Note, the 2016 Budget forecast was restated to include the interest on debt of the broader public sector due to the change in accounting reporting policy this fiscal year.

Q. Why is IOD for 2016-17 of \$11,709 million higher by \$120 million than IOD for 2015-16 of \$11,589 million?

A. IOD is higher by \$120 million from last year, mainly due to increased borrowing to the fund of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

DEBT MANAGEMENT

Q. You talk about balancing the budget, but Ontario's debt continues to grow. How is the government paying down the debt?

A. Investors and rating agencies are focused on relative debt measures such as the net debt-to-GDP. 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.

Q. 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?

A: 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.

Q. 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?

A: There is a strong demand for Ontario bonds. Such 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 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast per the 2017 Budget is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 26 fiscal years from 1991–92 to 2016–17, and is projected to remain low over the forecast horizon to 2019–20.

Q. What if interest rates go up? What effect would higher interest rates have on interest-on-debt?

A: As indicated in Note 3 of the audited consolidated financial statements in the Annual Report, a one per cent increase in interest rates above our budget forecast would result in an increase in interest on debt of approximately \$300 million.

Q. What's the difference between 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. Did you use your reserve fund to pay your fiscal results and pay down the debt?

A The Reserve is an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook as reflected through impacts to Provincial revenue and expenses, not typically balance sheet items like Public Debt.

Actual costs incurred by the government which pertain to the Reserve are recorded as expenses. Any portion of the reserve that remains unutilized at the end of the fiscal year is used to reduce the deficit.

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

A: 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 2017-18 to 2019-20, average long term public borrowings are estimated to be \$32 billion per annum.

REVENUE

2016-17 Actual Vs. 2016 Budget Plan

Q: Why are revenues \$2.2 billion higher your 2016 Budget projection?

A: This is mostly because of stronger-than-expected taxation revenues and higher net incomes from Government Business Enterprises, partially offset by lower Government of Canada Transfers and Other non-tax revenues.

Q: What accounts for the \$2.5 billion increase in Taxation revenues from your 2016 Budget projection?

A: Largely due to stronger Corporations Tax revenues resulting from higher-than-projected tax assessments and higher HST and LTT revenues arising from stronger economic growth, partially offset by weaker PIT revenues reflecting weaker-than-expected 2016 tax assessments.

Q: What accounts for the \$0.6 billion decrease in Government of Canada Transfers?

A: This decrease mainly reflects lower-than-anticipated funding for infrastructure projects and other federal payments, including transfers to government agencies, hospitals, school boards, and colleges. This decline is partially offset by new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education.

Q: What accounts for the \$0.5 billion increase in net income of Government Business Enterprises?

A: This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO) and Ontario Lottery and Gaming Corporation (OLG).

Higher LCBO net income mainly reflects the sale of its head office lands and higher OLG net income is due mainly to higher-than-anticipated revenue from lottery and casinos businesses.

The increase in OLG and LCBO net income, however, was partially offset by lower net income from OPG reflecting the impact of provincial accounting consolidation adjustment (-\$75M) using International Financial Reporting Standards (IFRS) rather than US GAAP, as required in Public Accounts under Public Sector Accounting Standards and lower Hydro One net income reflecting, primarily, impacts from broadening Hydro One provincial ownership from 84% to 70% through the secondary offering.

Q: What accounts for the \$0.6 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase mainly reflects higher-than-expected revenues from non-provincial sources for hospitals, and higher international fee and other revenues from colleges.

Q: What accounts for the \$0.8 billion decrease in Other Non-Tax Revenues?

A: Other Non-tax revenue (NTR) comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of \$0.8 billion in Other Non-Tax revenue is due largely to two main causes:

1. Carbon Allowance Proceeds from the first cap-and-trade program auction held in March 2017 to be recognized in 2017-18 instead of 2016-17 as budgeted; and
2. Lower sales and rentals revenue mainly reflecting gains from the sale of LCBO head office lands reported as income from GBEs in 2016-17 instead of sales and rentals revenue in 2016 Budget.

This decrease is partially offset by higher revenue from Power Supply Contract Recoveries.

Q: Budget 2016 reported revenue projections from carbon allowance proceeds and the first cap-and-trade program auction took place in March 2017. Can you explain why the government would not report the Carbon Allowance Proceeds in 2016-17 fiscal year?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances.

In Budget 2017, no proceeds are reported for fiscal 2016-17. While Ontario held its first carbon allowance auction in March 2017 and received \$472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year. Therefore, proceeds from the first auction will be reported in 2017-18 fiscal year instead of in 2016-17 as budgeted.

2016-17 Actual Vs. 2015-16 Actual

Q: What accounts for the \$4.6 billion year-over-year increase in revenues?

A: The increase is largely due to higher taxation revenues, federal payments and net income of government enterprises, partially offset by lower Other non-tax revenues.

Q: What accounts for the \$2.5 billion year-over-year increase in taxation revenues?

A: The increase in taxation revenue is largely due to stronger CT revenues, higher HST and Land Transfer Tax revenues, partially offset by weaker PIT revenues.

- Stronger CT revenue is mainly a result of higher-than-expected growth in 2016 Tax Assessments and stronger-than-expected harmonized tax assessments for tax years prior to 2015.
- Stronger HST revenue reflects higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- Stronger LTT revenues reflect a very strong Ontario housing market.
- PIT weakness is mainly due to weaker-than-expected 2016 tax assessments. Some of the PIT weakness is due to the extent to which tax payers may have shifted income from future years into 2015 to avoid increases in federal tax rate applied above \$200,000 of taxable income starting from 2016.

Q: What accounts for the \$1.4 billion increase in Government of Canada Transfers?

A: Higher transfers in 2016-17 from federal government mainly reflect higher funding for existing major federal funding programs such as Canada Health Transfer, Canada Social Transfer, and new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education. Transfers under these programs are based on existing federal-provincial funding arrangements and funding formulas.

Q: What accounts for the \$0.7 billion increase in net Income from Government Business Enterprises?

A: This increase mainly reflects higher net income from Ontario Lottery and Gaming Corporation (OLG), and Hydro One Ltd (HOL), and Liquor Control Board of Ontario (LCBO), partially offset by lower net income from the Ontario Power Generation (OPG).

The increase in LCBO net income largely reflects a one-time gain related to the sale of its head office lands. OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos. Higher income from Hydro One mainly reflect lower 2015-16 due to a significant one-time PILs expenses of about \$2.8B as a result of the IPO in November 2015 which led to lower consolidated net income. This impact on net income was partially offset by the impact of the Province's \$2.4 billion proportionate share of Hydro One's recognition of a deferred tax benefit.

The decrease in OPG's net income is primarily due to relatively stronger 2015-16 results of the nuclear funds invested in financial market.

Q: What accounts for the \$0.5 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase largely reflects higher international tuition fee and other revenues reported by colleges and higher revenues from non-provincial sources reported by hospitals.

Q: What accounts for the \$0.5 billion decrease in Other Non-Tax Revenues?

A: Other non-tax revenue comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the prior year.

The overall decline of \$0.5 billion in other NTR largely reflects lower revenue from electricity debt retirement charge (DRC) due to the elimination of DRC for residential consumers, effective January 1, 2016. Other NTR is also lower due to lower sales and rentals and miscellaneous revenue from consolidated government agencies.

2016-17 Actual Vs. 2017 Budget Interim

Q: Why did Taxation revenues decrease by \$0.7 billion above your Interim estimate?

A: The decrease in Taxation revenues is largely due to a decline in PIT revenues which more than offset an increase in CT revenues. PIT weakness reflects weaker-than-expected 2016 tax assessments while stronger CT revenues is mainly due to stronger tax assessments for 2015 and prior years, as well as stronger performance of 2016 Tax assessments than assumed in the 2016 Budget.

Q: What accounts for the \$0.3 billion decrease in government of Canada transfers?

A: This decrease mainly reflects the absence of funding in 2016-17 for Clean Water and Wastewater projects and lower federal transfers to government agencies, including hospitals, school boards and colleges.

Q: What accounts for the \$0.3 billion increase in net Income from Government Business Enterprises?

A: The increase was mostly attributable to higher net incomes from the Ontario Lottery and Gaming Corporation (OLG), and slightly higher net income from the Liquor Board of Ontario (LCBO), and the Ontario Power Generation (OPG). This increase is partially offset by lower net income from Hydro One Ltd.

- OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos.

Q: What accounts for the \$0.3 billion increase in fees, donations and other revenues from broader public sector organizations?

A: The increase is largely due to higher international tuition fees and other revenues reported by colleges and higher revenues from school boards due to third party revenue being reported as federal transfers at interim instead of fees, donations and other revenues as presented in public accounts.

Q: What accounts for the \$0.1 billion decrease in Other Non-Tax revenues?

A: Lower revenues from other Non-Tax revenue largely reflect lower recoveries of prior-year-expenditures and miscellaneous revenues from various government ministries and consolidated government agencies, partially offset by higher Power Supply Contract Recoveries. The latter is fiscally-neutral being offset by higher Power Supply Contract Costs.

EXPENSES BY SECTOR

HEALTH

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Health Sector Expense in 2016-17 higher by \$239 million than in the Budget Plan?

A. Health sector expense that was \$239 million above plan, mainly due to higher than planned spending in hospital operations, physician services, complex malignant hematology and hematopoietic cell transplantation.

The higher expense for hospital operations is mainly due to higher-than-expected spending in cancer treatment, Ontario Drug Programs, specialty psychiatric hospital programs, operating costs and amortization expense.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is the Health Sector Expense \$4.8 billion higher in 2016-17 than 2012-13?

A. Health sector expense increased from \$51.2 billion in 2012–13 to \$56.0 billion in 2016–17, or on average by 2.3 per cent per year. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors, such as new drugs and technologies. Increased spending included new investments in home and community care, long term care homes and mental health, and physician services; as well as specialized services such as cancer treatment.

EDUCATION

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Education sector expense in 2016-17 higher by \$36 million than in the Budget Plan?

A. Education sector expense that was \$36 million higher-than-planned, mainly due to slightly higher than-projected enrolment.

Q. Why is the Post-secondary and training sector expense in 2016-17 lower by \$67 million than in the Budget Plan?

A. Postsecondary and training sector expense that was \$67 million lower than-expected, mainly due to lower-than-forecast demand for employment and training programs, offset in part by increased capital transfer payments to universities through additional federal postsecondary infrastructure funding.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did Education sector expense increase from \$22.6 billion to \$26.6 billion from 2012-13 to 2016-17?

A. Education sector expense increased from \$22.6 billion in 2012–13 to \$26.6 billion in 2016–17, or on average by 4.1 per cent per year. Expense in 2012–13 included a one-time savings of \$1.3 billion from reducing liabilities carried by school boards for sick-day banking and retirement gratuities. Excluding this one-time savings in the 2012–13 results, the education sector expense increased on average by 2.7 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014; and other investments, including negotiated labour enhancements and increases in school renewal funding.

Q. Why have expenses in the Postsecondary and Training Sector increased from \$9.3 billion in 2012-13 to \$10.1 billion in 2016-17?

A. Postsecondary and training sector expense increased from \$9.3 billion in 2012–13 to \$10.1 billion in 2016–17, or on average by 2.2 per cent per year. The increase is mainly due to continued funding to support enrolment growth in postsecondary institutions, growth in student financial assistance programs and increases in postsecondary capital transfer payments.

CHILDREN'S & SOCIAL SERVICES

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Children's and social services sector expense in 2016-17 higher by \$190 million than in the Budget Plan?

A. Children's and social services sector expense that was \$190 million higher than planned, mainly due to additional spending to address demand for the Ontario Disability Support Program and for young adults with complex special needs as well as expanding supports for children and youth with autism.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Children's and Social Services sector actual expense grow by \$2.3 billion from 2012-13 to 2016-17?

A. Children's and social services sector expense increased from \$13.7 billion in 2012–13 to \$16.0 billion in 2016–17, or on average by 3.9 per cent per year. The increase primarily reflects social assistance rate increases as well as investments in developmental services, autism and complex special needs programs and the Ontario Child Benefit.

JUSTICE

Summary of 2016-17 Budget to Actual Variance Analysis

- Q. Why is the Justice sector expense in 2016-17 higher by \$102 million than in the Budget Plan?**
- A. Justice sector expense was \$102 million higher than planned, mainly due to settlements under the Proceedings Against the Crown Act and ensuring wage parity for First Nations police officers.

Summary of Five Year Expense Actual Variance Analysis

- Q. Why has Justice Sector Expense increased by \$652 million from 2012-13 to 2016-17?**
- A. Justice sector expense increased from \$4.0 billion in 2012–13 to \$4.6 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the provincial upload of court security costs from municipalities, compensation in the Ontario Provincial Police and correctional services programs, and improved access to legal aid for low-income Ontarians.

OTHER PROGRAMS

Summary of 2016-17 Budget to Actual Variance Analysis

- Q. Why is Other programs expense in 2016-17 higher by \$140 million than in the Budget Plan?**
- A. Other programs expense that was \$140 million higher than expected, mainly due to federal and provincial investments in social and affordable housing as well as the Ontario Rebate for Electricity Consumers. As well, there was lower-than-forecast spending due to revised timelines for Building Canada Fund projects and municipal transit projects.

Summary of Five Year Expense Actual Variance Analysis

- Q. Why did the Other Programs Sector Actual Expense decrease by \$1.2 billion from 2012-13 to 2016-17?**
- A. Other programs expense decreased by \$1.2 billion from \$17.9 billion in 2012–13 to \$16.7 billion in 2016–17. This decrease is mainly due to the end of time-limited funding related to the Ontario Clean Energy Benefit program and the 2015 Pan/Parapan American Games, as well as the redesign of the Ontario Municipal Partnership Fund program.

ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS

(\$Millions)					
	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Ontario Teachers' Pension Plan	(452)	(377)	110	75	487

TEACHER'S PENSION PLAN

- Q. Why has the 2016-17 Teachers' Pension Plan expense decreased from expense of \$110M from 2015-16 to recovery of \$377M in 2016-17?**
- A. The decrease in Teachers' Pension Plan pension expense is primarily due to increase recognition of investment gains in recent years.
- Q. Why has the 2016-17 Teachers' Pension Plan recovery of \$377M lower than what had been projected in prior year's Budget of \$452M?**
- A. Actual 2016-17 Teachers' Pension Plan recovery of \$377M is lower than recovery of \$452M projected in 2016 Budget due lower than expected rate of growth in active members and due to additional adjustment was made this year to eliminate timing differences between provincial contributions and pension plan assets.

(\$ Millions)					
	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Employee and Pensioner Benefits	1,152	1,002	987	(150)	15

EMPLOYEE AND PENSIONER BENEFITS

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of \$1,002M lower by \$150M from what had been projected in prior year's Budget of \$1,152M?

A. The 2016-17 actual Employee and Pensioner Benefits expense is \$151M lower than originally budget is mainly due to lower WSIB expense than originally forecasted. WSIB had change their estimate of forecast claim administration rate in 2016, which resulted in reduction in expense in 2016-17.

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of \$1,002M higher than 2015-16 Employee and Pensioner Benefit Expense of \$987M?

A. The increase is due to changes made termination pay and long-term protection benefits to OPSEU members in 2015-16 that did not occur in 2016-17. This increase is partially offset by lower WSIB expense due to change in forecast claim administration rate in 2016 and due to lower pension expense as result of increase recognition of investment gains in recent years.

HEALTHCARE OF ONTARIO PENSION PLAN

Q. Why did the Healthcare of Ontario Pension Plan expense decrease by \$155M from \$747M in 2015-16 to \$592M in 2016-17?

A. The Healthcare of Ontario Pension Plan expense decreased compared to prior year's actual mainly due to an increase in amortization of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year over year expenses were partially offset by higher current service costs in 2016 as a result of an increase in active membership in 2015-16.

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN

Q. Why did the Colleges of Applied Arts and Technology Pension Plan expense increase by \$3M from \$190M in 2015-16 to \$193M in 2016-17?

A. The Colleges of Applied Arts and Technology Pension Plan expense increased compared to prior year's actual, mainly due the \$14M write-off of CAATPP net pension plan assets in 2016-17. The plan was not in an asset position as of year-end in 2015-16.

INFRASTRUCTURE

Infrastructure Expenditures Table

Q. Why is the 2016-17 total infrastructure expenditure \$3.3 billion lower than planned in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The forecast in Budget 2016 was subject to change as new information became available throughout the year. Infrastructure spending of \$12.9 billion, reported in the Public Accounts was \$3.3 billion lower than the \$16.2 billion set out in the 2016 Budget.

Underspending is mainly due to slower than expected construction progress in the transit sector (\$2 billion) and health sector (about \$0.5 billion).

Q. Why is the 2016-17 total infrastructure expenditure \$1.4 billion lower than estimated in the interim forecast in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The interim forecast was subject to change as new information became available throughout the year. Infrastructure spending of \$12.9 billion, including other partner funding, reported in the Public Accounts was \$1.4 billion lower than the \$14.3 billion set out in the interim forecast in the 2016 Budget due to slower than expected construction progress in the transit sector (\$0.5B) and education sector (\$0.4B).

Q. Actual infrastructure expenditures are \$3.3 billion below the budgeted amounts. Doesn't this mean you should adjust your forecasting practices? Does this mean 2016-17 planned expenditures are overstated?

A. Infrastructure expenditures forecast for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with the Public Accounts. As new information becomes available throughout the year, the forecasts will likely change (for example, due to updates in construction timelines). In this context it is important to note that infrastructure expenditure forecasts presented as part of Budget or other fiscal updates represents a point in time along this continuum and is based on the best available information at that time.

Given the uncertainties inherent in making projections, it is appropriate for the government to remain prudent and cautious in its forecasting.

The 2016-17 budgeted infrastructure expenditures are a reflection of prudent forecasting practices and the government's ongoing commitment to building and renewing the infrastructure the public relies on.

Q. In 2016-17, actual infrastructure expenditures are \$3.3 billion below the budgeted amounts. Is the \$3.3 billion earmarked for infrastructure in spite of the fact that it hasn't been spent yet, and will it be carried over to another fiscal to be spent on infrastructure? Or does the underspend mean that the \$3.3 billion will be spent on other gov't priorities?

A. The \$3.3 billion expenditure decrease is not earmarked for infrastructure investments or carried over to future years. Future year infrastructure investment decisions are made as part of the annual budgeting process.

The resulting fiscal savings associated with this expenditure decrease is allocated in the government's total program expense figures.

Q. Why has amortization cost gone up so significantly between 2012-13 and 2016-17?

A. Amortization recognizes consumption of Tangible Capital Assets. Amortization expense is primarily made up of amortization on existing assets. As these assets reach the end of their useful lives, the associated amortization disappears. This decline is offset by new amortization expense as new infrastructure projects come into service. Between 2012-13 and 2016-17, the province invested \$53 billion in capital assets. As these assets have come into service, the corresponding consumption cost (amortization) has gone up. As the government continues to invest in infrastructure, amortization expense will continue to grow.

Q. If we invested \$10 billion in publically owned infrastructure assets in 2016-17, why does TCA only go up by \$4.8 billion?

A. The net book value of tangible capital assets is calculated as the book value (purchase price) less accumulated amortization. As long as assets are being amortized, growth in the stock of the Province's TCA on a yearly basis will always be less than the yearly investment. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis. Amortization expense of TCA in 2016-17 totalled \$5.2 billion.

Q. What are some examples of investments made in between 2012-13 and 2016-17?

A. A few examples of the many infrastructure investments Ontario has made over the last five years include:

- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, opened in Spring 2016.
- The Pan/Parapan American Games Athletes' Village, which was home to about 10,000 athletes and officials during the Games. The village will be transformed into a mixed-use neighbourhood with affordable housing, health services and a residence for George Brown College students.
- The Union Pearson (UP) Express, which began service in 2016, provides a dedicated rail link connecting Toronto Pearson International Airport with Union Station in downtown Toronto in 25 minutes.
- The Right Honourable Herb Gray Parkway in Windsor–Essex, provides an express route to the country's busiest land border crossing.
- The Humber College infrastructure project involved the construction of a new Learning Resource Commons and an academic support and student services facility.
- The Elgin County Courthouse brings together existing court facilities within one location in St. Thomas.
- The New Oakville-Trafalgar Memorial Hospital is a state-of-the-art facility accommodating a full range of hospital services including acute care, complex continuing care and rehabilitation.
- The new Humber River Hospital includes a new facility on a new site in north-western Toronto, one of the most culturally diverse and fastest-growing communities in Canada. The Humber River Hospital offers a comprehensive range of services to support inpatient and outpatient programs.

Q. What kind of infrastructure investments does the Province make which do not contribute to the net book value of tangible capital assets?

A. The Province makes transfers to its non-consolidated partners, such as municipalities and universities, for capital purposes. This spending is recorded in the Infrastructure expenditures table (Table 4) as 'Transfers and Other Infrastructure Expenditures.' 'Other Infrastructure Expenditures' includes expenses such as non-capitalized maintenance costs (e.g., window cleaning of provincially owned buildings). These expenses are included as part of overall infrastructure spending, but do not contribute to the net book value of the Province's tangible capital assets.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: If the Trillium Trust has been credited with \$5.3 billion, why did the government only draw down \$260 million in 2016-17?

A: Like most large infrastructure investments, initial spending on 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 gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure. The 2017 Budget included an additional \$400 million to be drawn down in 2017-18.

Q: What projects are being funded through the Trillium Trust?

A: The Trillium Trust was drawn down by about \$260 million in 2016–17 to help support transit, transportation and priority infrastructure across the Province under the Moving Ontario Forward initiative.

As communicated in the 2017 Budget, the Trillium Trust is supporting initiatives such as GO Regional Express Rail, the Hurontario Light Rail Transit, and the Ontario Community Infrastructure Fund.

Q: If the Province raised about \$2 billion in the secondary offering of Hydro One shares in 2016, why was only \$538 million credited to the Trillium Trust?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the \$1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFEC).

Through the broadening of Hydro One ownership, the Province is meeting its target 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: The Public Accounts show that the government credited the Trillium Trust with a non-cash deferred tax benefit resulting from the Hydro One IPO. How can the government use a non-cash amount to invest in infrastructure?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains to the Trillium Trust.

The deferred tax benefit provided an up-front revenue gain to the Province through consolidation of the Province's portion of Hydro One's net income in the Public Accounts. This also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds. This does not affect the total cash the Province receives.

By dedicating to the Trillium Trust the net revenue gains to the Province from the deferred tax benefit, the government is ensuring that the full benefit of the value created from broadening Hydro One ownership is dedicated to the Trust to support investments in transit and infrastructure.

Q: Why hasn't the government credited the Trillium Trust with the net revenue gains associated with Hydro One shares purchased by OPG and Hydro One shares purchased by trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP) through Provincial loans?

A: The government has made a regulation that will credit the Trillium Trust with the net revenue gains from the sale of shares to the PWU / SEP trusts that were supported by Provincial loans.

The \$48M total gain from the sale of these shares was recorded as deferred revenue in the 2015-16 Public Accounts. As payments of the loan are received, the gain on sale will be recognized annually as revenue in proportion to the payments made.

The annual gain will be reported in the Public Accounts, to clearly indicate the amount to be credited to the Trillium Trust. The first annual gain, as reported in Volume 1 of these 2016-17 Public Accounts is approximately \$1.5 million.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

Q: If the sale of Hydro One Brampton is now complete and the gain is being reported in Public Accounts, why hasn't the Province credited the Trillium Trust from the sale?

A: The government is committed to dedicating the net proceeds from the sale to the Trillium Trust, and will move forward with a regulation under the Trillium Trust Act.

ELECTRICITY SECTOR

2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast]

Q. Why did the combined net incomes of OPG and Hydro One decrease by \$193 million compared to Plan? [Excludes Hydro One Brampton net income variance of \$3 million]

- A. The \$193 million decrease in combined OPG and Hydro One net incomes in 2016-17 from Plan reflects:
- lower-than-projected OPG gross margins, and
 - lower Hydro One Limited net income largely due to re-categorization of impacts of broadening Hydro One ownership (~84% ownership to ~70% ownership through the secondary offering) that were previously reflected under Sales and Rentals revenue. The re-categorization is fiscally-neutral.

Q. Why are Electricity payments-in-lieu of taxes \$151 million lower than Plan?

- A. The variance is primarily due to lower income tax PILs from OPG, partially offset by higher PILs from municipal electrical utilities.

Q. Why are Power Supply Contract Recoveries \$195 million higher than projected??

- A. The actual amount in 2016-17 is higher largely due to the dismissal of the Ontario Electricity Financial Corporation's (OEFEC) appeal of a court decision with respect to the calculation of some escalation rates under legacy former Ontario Hydro power purchase contracts with non-utility generators (NUGs), and the subsequent decline of an application for leave to appeal to the Supreme Court of Canada. As a result of the decisions, OEFEC recognized higher power supply contract expenses, fully offset by higher power supply contract recoveries.

2016–17 vs Interim 2016-17 [Actual vs Interim Forecast]

Q. Why did the combined net incomes of OPG and Hydro One increase by \$14 million compared to the Interim forecast for 2016-17?

A. The variance is mainly due to stronger-than-projected results for OPG's nuclear funds contribution, partially offset by the lower Hydro One net income.

Q. Can you explain the \$99 million variance in Power Supply Contract Recoveries between interim numbers in Budget 2017 and actuals [in Public Accounts]?

A. The variance is largely due to retroactive payments that the Ontario Electricity Financial Corporation (OEFC) made to certain non-utility-generators (NUGs) with legacy former Ontario Hydro power purchase agreement (PPA) contracts with OEFC.

OEFC was required to make these payments following the dismissal by the Supreme Court of Canada of OEFC's application for leave to appeal a judgment of the Court of Appeal of Ontario on a 2015 court decision.

- o Ontario Hydro entered into these PPAs in the late 80s and early 90s with private sector generators.
- o As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts.
- o Some of the PPAs had escalation clauses under which the global adjustment has an impact on the calculation of the contract rates.
- o In 2015, a lower court decision found that OEFC had not properly calculated the price paid for electricity under 12 PPAs, following the enactment of Ontario Regulation 398/10, under which the allocation among electricity consumers of the Global Adjustment, one component of the all-in price of electricity, was changed.
- o These 12 PPAs were held by entities that participated in the lawsuit, and they received retroactive payments in 2016, following the Ontario Court of Appeal decision to dismiss OEFC's appeal.
- o Several PPA counterparties with similar price provisions that did not participate in the lawsuit entered into Standstill Agreements with OEFC in 2015, after the original court decision. After all avenues of appeal were exhausted, following the 2017 Supreme Court decision, OEFC was required to make retroactive payments to these entities.

2016–17 vs 2015-16 [Actual vs Previous Year]

Q. Why did Hydro One's net income to the Province increase by \$263 million compared to the previous fiscal year?

- A. Hydro One's net income remains relatively unchanged from 2015-16 to 2016-17. The \$263 million increase in Hydro One net income to the Province, however, is largely due to the impacts of the November 2015 Hydro One IPO.

Hydro One 2015-16 net income to the Province, was lower due to IPO-related factors including a one-time PILs expense of about \$2.8B, partially offset by the \$2.4 billion proportionate impact on the Province's net income from Hydro One's recognition of a deferred tax benefit of about \$2.8 billion.

[The impact of the 2015-16 IPO-related adjustments were partly offset by the impact of the secondary share offering in 2016-17 on the Province's share of Hydro One net income.]

Q. Why did OPG's net income decline by \$121 million compared to the previous fiscal year?

- A. The decrease is due largely to stronger 2015-16 earnings on the nuclear funds on a realized basis.

Q. Why did Electricity Debt Retirement Charge decrease by \$238 million compared to the previous fiscal year?

- A. The DRC trends downwards primarily due to the elimination of the DRC for residential consumers, effective January 1, 2016. The variance reflects the first full year of residential consumer exemption from the DRC in 2016-17.

Q. Why did Electricity payments-in-lieu of taxes decrease by \$2.9 billion from last year?

- A. The increase is primarily due to significant one-time PILs related to Hydro One's IPO, including \$2.6 billion in departure tax under the PILs regime and about \$0.2 billion in additional PILs, as Hydro One exited the PILs regime and started paying corporate income taxes following the IPO. Note that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

Electricity Sector Stranded Debt

Q. What is the status of old Ontario Hydro's stranded debt? When is the Debt Retirement Charge (DRC) expected to end based on the latest available information?

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 thirteenth consecutive year, the stranded debt has been reduced. The 2016–17 results for the OEFC show an excess of revenue over expense of \$1.2 billion. The OEFC has paid down stranded debt by a total of about \$18.5 billion from its peak in 2003-04, reducing stranded debt to \$3.2 billion as at March 31, 2017.

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 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.

RESERVE FUND

Q. Why does the government maintain a reserve fund? Last year there were questions raised about the government dipping into its reserve fund to strengthen its results. Did you do that this year?

A. As required under the Fiscal Transparency and Accountability Act, 2004, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

The 2016 Budget plan included a \$1.0 billion reserve for 2016–17. Excluding this reserve, the 2016 Budget projected a deficit of \$3.3 billion.

As the reserve is a forecast provision, and the fiscal results for 2016–17 are now finalized, a reserve is no longer included in the Province's financial statements.

The final deficit for the 2016–17 fiscal year is \$1.0 billion, a \$3.3 billion improvement compared with the 2016 Budget projection of \$4.3 billion, which included the reserve.

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

A. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending 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 fiscal outlook against unforeseen adverse changes in the Province's revenue and expense – for example, changes in Ontario's economic performance.

RESULTS VERSUS 1ST QUARTER REPORT

- Q. Was the government being overly optimistic in its revenue forecast in the 2017-18 First Quarter Finances based on the Annual Report results for the 2016-17 fiscal year?**
- A. The 2017-18 First Quarter Finances was released before the 2016-17 Annual Report and does not take into account the revised 2016-17 revenue. The government will be updating its revenue outlook in the 2017 Ontario Economic Outlook and Fiscal Review in the fall, which will include the latest 2016-17 results as well as all additional information arriving after the Annual Report.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Q. Why are we removing uncollectible accounts receivable owed to the province from the accounting records?

A. Removing uncollectible accounts receivable is required under Public Sector Accounting Standards. After ministries have taken progressive collection activity and determined that all the collection efforts have been exhausted, those accounts with little or no prospect of collectability are removed from current accounting records.

Q. How will the write-offs be shown in the Public Accounts?

A. The ministries' uncollectible accounts receivable are required to be published in a table called "Losses Deleted from the Accounts" in Volume 2 of the 2016/17 Public Accounts.

Q. Is removing uncollectible accounts receivable from the records the same as forgiving the debt?

A. No. If debt is forgiven, the province cannot pursue or collect on the debt in the future. However, having an account written-off does not eliminate the debtor's legal obligation to pay the liability. The province may attempt to collect the money owed if the debtor's circumstances change in the future. In 2016/17, \$17.3M was collected on accounts previously written off.

Q. How do you determine when a debt is uncollectible?

A. In the vast majority of cases, a debt may become uncollectible when a corporation or individual debtor becomes insolvent or goes bankrupt; or when an individual debtor dies, is imprisoned for a long term or cannot be located for a considerable period of time.

It may take several years of progressive collection actions before an uncollectible account receivable is submitted for removal from the accounting records.

Q. How does this affect the province's bottom line?

A. There is no impact on the deficit/surplus in the year as a result of removing uncollectible accounts from the accounting records.

The fiscal impact incurred in the year when the account was initially identified as being doubtful. At that time, a bad debt expense was recorded.

Q. What is the amount of uncollectible accounts receivable this year?

A. The total uncollectible accounts receivable for 2016/17 is \$267.2 million.

Q. What amount of unpaid taxes is included in the Ministry of Finance's total?

A. The total for tax-related amounts is \$134.2 million, which represents 97% of MOF's submission of \$138.8 million and is attributable to bankrupt or insolvent tax payers.

Q. How does the amount of uncollectible accounts receivable compare with total accounts receivable?

A. This year's uncollectible accounts receivable represent about 2.4% (4.0% in 2015/16) of the province's accounts receivable.

Q. What steps is the government taking to reduce future write-off of accounts receivable?

A. Common progressive collection tools include the use of private collection agencies and the Canada Revenue Agency (CRA) Refund Setoff Program, in addition to any specific legislated tools provided in the appropriate legislation (e.g., clawbacks, liens, director's liability). The centralization of collections within MOF helps ensure a standard, OPS-wide use of such tools.

(AS PRESENTED IN ANNUAL REPORT)

LOSSES DELETED FROM THE ACCOUNTS

(Under the Financial Administration Act)
For the year ended March 31, 2017

	\$ 2016-2017
FINANCE.....	138,818,406.60
ADVANCED EDUCATION AND SKILLS DEVELOPMENT.....	54,677,124.91
COMMUNITY AND SOCIAL SERVICES.....	45,886,186.45
ATTORNEY GENERAL.....	21,642,494.26
TRANSPORTATION.....	3,771,415.55
CHILDREN AND YOUTH SERVICES.....	898,957.06
NATURAL RESOURCES AND FORESTRY.....	847,762.62
HEALTH AND LONG-TERM CARE.....	340,142.56
COMMUNITY SAFETY AND CORRECTIONAL SERVICES.....	98,367.09
TOURISM, CULTURE AND SPORT.....	73,937.72
OFFICE OF THE ASSEMBLY.....	30,471.10
EDUCATION.....	19,896.26
INFRASTRUCTURE.....	17,548.77
AGRICULTURE, FOOD AND RURAL AFFAIRS.....	16,685.11
GOVERNMENT AND CONSUMER SERVICES.....	12,472.33
HOUSING.....	7,038.04
NORTHERN DEVELOPMENT AND MINES.....	6,939.84
LABOUR.....	5,189.48
TOTAL.....	\$267,171,035.75

PUBLIC ACCOUNTS 2016-17

Media Qs & As

September 6, 2017

Contents

Key Messages.....	2
Top Media Qs&As	3
Media Qs&As – Comprehensive List.....	11
General Public Accounts Information	11
Accounting Changes	11
• Broader Public Sector Accounting Presentation Change	12
• Ontario Power Generation and Hydro One Accounting Change	13
• Pension Asset Accounting	13
• Independent Electricity System Operator (IESO) Accounting Changes	13
Auditor General – Qualified Opinion.....	14
• Pension Asset Accounting	15
• IESO Accounting	17
• Ontario's Fair Hydro Plan Accounting (Other Matters)	20
Ontario's Fiscal Position.....	22
• Balanced Budget	22
• Debt.....	23
o Financial Accountability Office of Ontario.....	26
o The Fraser Institute	27
o Most Indebted Subsovereign, Future Generations.....	27
• Revenue	29
o Asset Sales	29
o Transfers from the Federal Government	30
o Revenue from International Tuition Fees	30
• Program Spending	31
• Credit Rating	32
o C.D. Howe Institute	33
Trillium Trust	34
Digital Tools/Open Government	36

Key Messages

- The 2016-17 Public Accounts of Ontario show that Ontario's deficit is \$991 million.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future. A balanced budget means more funding for the programs and services people and families rely on most.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to [Open Government](#).
- The government will continue to build on its track record of responsible fiscal management.

Top Media Qs&As

Top media Qs&As updated September 5, 2017

1. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

- 5. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province -- in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To

ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

Media Qs&As – Comprehensive List

General Public Accounts Information

1. What is Public Accounts?

The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.

2. Why can't I find some organizations' financial statements in the Public Accounts?

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. At the time of print, some organizations may not have had time to provide their financial statements. When this happens, we post them to Ontario.ca/publicaccounts as soon as they're available. The omission has no impact on the financial results reported in Public Accounts.

Accounting Changes

3. Why have you restated prior year's financial statements?

When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

These changes include:

- a. **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
- b. **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

- c. **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
- d. **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

- **Broader Public Sector Accounting Presentation Change**

4. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**
(Top Media Question - updated September 5, 2017)

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

5. **What is consolidated reporting?**

This presentation change may also be referred to as line-by-line consolidated reporting. This type of reporting is a more transparent way of presenting the details in the Broader Public Sector (BPS).

This change means that both expenses and revenues will be shown as separate items (on a gross basis), as opposed to being reported together (on a net basis). This affects what you see in the reporting breakdown of figures for hospitals, school boards, colleges and universities. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

- **Ontario Power Generation and Hydro One Accounting Change**

6. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

7. What is the impact of this change to the Province's bottom line?

This change has resulted in an adjustment to the opening accumulated deficit and net debt of \$1,163 million, of which \$683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the Province in 2016-17.

- **Pension Asset Accounting**

See section: Auditor General – Qualified Opinion for more information.

- **Independent Electricity System Operator (IESO) Accounting Changes**

8. What accounting changes were made by the Independent Electricity System Operator (IESO)? Why?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The IESO also made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

See section: Auditor General – Qualified Opinion for more information.

Auditor General – Qualified Opinion

9. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

(Top Media Question - updated September 5, 2017)

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

10. This year it's IESO accounting. Last year it was pension assets. Before that it was government advertising. Why are you still fighting with the Auditor General? This seems to be a pattern of behavior where you try and undermine her authority.

Our government has the utmost respect for all independent officers of the legislature, and we value the important perspective they bring.

- **Pension Asset Accounting**

11. Why are you still fighting with the Auditor General over pension accounting?

(Top Media Question - updated September 5, 2017)

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

12. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

EY provided additional analysis and concluded that no valuation allowance was required for either plan, confirming the independent panel's recommendation.

13. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.

- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

14. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was \$221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to \$2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

• **IESO Accounting**

15. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

(Top Media Question - updated September 5, 2017)

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

16. What is the Auditor General's argument with these changes?

The Auditor General claims that the change to the IESO's accounting policy to recognize market account assets and liabilities is inappropriate, as these market accounts are not assets and liabilities of the Province.

However, the IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

17. Between IESO and the pension issue from last year it seems like you just make up new rules when you don't like what you hear from the Auditor General. How do you respond to that?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

In many cases the application of accounting standards requires professional judgment. The Province's professionally accredited accounting staff are highly qualified practitioners, with a high degree of expertise in their field. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

18. Will you strike an expert panel to study to IESO issue, like you did last year for pension accounting?

We have no plans to establish a panel at this time.

The changes made to the IESO accounting were accepted by the IESO's audit committee, board of directors, and their independent external auditor. These changes were outlined in the IESO's 2016 annual report, which was published in March 2017. The Office of the Provincial Controller supports these changes.

19. Your reasons for change are yet again at odds with the Auditor General. Why should we believe you, when she is an independent officer of the legislature?

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.

• **Ontario's Fair Hydro Plan Accounting (Other Matters)**

20. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

First, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

Having said that, we respectfully disagree with the Auditor General's claim that the government withheld information from her or her office.

In March, the Ministry of Energy provided the Auditor General's Office with Cabinet documents from February and March related to Ontario's Fair Hydro Plan. These documents together provided a comprehensive overview of all elements of the plan that were known at that time, including accounting memos from both the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG).

On April 19, 2017, senior ministry officials from Treasury Board Secretariat, Finance and Energy met with the Auditor General and her staff to provide a briefing on Ontario's Fair Hydro Plan.

Since that April 19 briefing, ministry officials from Treasury Board Secretariat have met with the Auditor General several times.

21. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

(Top Media Question - updated September 5, 2017)

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

22. Why did you set up Ontario's Fair Hydro Plan accounting in this way?

Again, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

However, in order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

All of the agreements necessary for the Global Adjustment (GA) Refinancing are not yet complete. The final accounting for the GA Refinancing will be completed once all of the elements are complete.

In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the province's consolidated financial statements in 2017-18 and forward, the province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.

The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.

Any further questions about Ontario's Fair Hydro Plan should be directed to my colleague the Minister of Energy.

Ontario's Fiscal Position

- **Balanced Budget**

23. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?

(Top Media Question - updated September 5, 2017)

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province -- in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

24. How were you able to beat your deficit target in 2016-17?

(Top Media Question - updated September 5, 2017)

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

25. You beat your deficit targets again. Aren't you just padding your estimates so you can beat them at the end of the day?

No. 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.

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.

- **Debt**

26. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

(Top Media Question - updated September 5, 2017)

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by

2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

27. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

(Top Media Question - updated September 6, 2017)

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

28. The government is paying an enormous amount of money just paying the interest on its debt. How are you addressing this?

Interest on debt expense was \$11.7 billion, which was \$0.7 billion below the plan of \$12.4 billion, due mainly to lower-than-forecast interest rates, lower-than-forecast deficit and cost-effective borrowing and debt management.

While interest costs have grown in absolute terms, they have steadily fallen as a percentage of Ontario's revenues since 2013-14. The interest on debt-to-revenue ratio is now at its lowest level from the peak of 15.5 per cent in 1999-2000.

Interest on debt-to-revenue is forecast to have been 8.4 per cent for 2016-17. This ratio is the lowest it has been in 25 years. It is forecast to decline to 8.2 per cent in 2017-18.

We incurred increases to Ontario's debt during the recession for two reasons: to finance deficits and invest in capital assets. However we are making progress on our economic plan by making investments to spur growth, and are managing spending responsibly.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

Our fiscal plan is working. Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most.

29. You are spending more on interest payments for the debt than what you spend on post-secondary education. In fact, the payments equal more than 20 per cent of the health budget. How can you justify this?

Our priority following the 2008-09 recession was to achieve balance. In the first

few years after the recession, the increase in net debt was primarily due to the deficit.

Approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for the balance.

With balanced budgets, from 2017-18 onwards, the increase in net debt will be exclusively from investments in capital assets. In addition, the government is investing in public infrastructure which is vital to growing the economy and ensuring a high quality of life, whether people live in large, small, urban, northern or rural Ontario communities. Every \$1 spent on public infrastructure can increase GDP by up to \$6 in the long term. The balanced budget is giving the government the fiscal flexibility to do more to help people and spur economic growth.

o **Financial Accountability Office of Ontario**

30. The Financial Accountability Office (FAO) just released a commentary saying your balanced budget is in question because it's based on optimistic revenue forecasts. Will you decrease spending or increase taxes to make up for this potential shortfall?

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017- Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

The government builds prudence into its economic forecast. Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

31. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

(Top Media Question - updated September 6, 2017)

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP.

The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

o **The Fraser Institute**

32. How do you respond to the August 3, 2017 Fraser Institute report that criticizes the Province's plan to reduce the debt burden as "wishful thinking"?

The rate of increase of the Province's net debt is anticipated to be below that of its GDP, due to a combination of balanced budgets and appropriate levels of capital investments. These investments also contribute to the Province's GDP growth as affirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending.

In later years, the rate of increase in net debt is expected to be lower than that of GDP due a combination of balanced budgets and investments in capital assets that will contribute to GDP growth, allowing the government to realize its net debt to GDP target of 27 per cent by 2029-30.

o **Most Indebted Subsovereign, Future Generations**

33. This government has a spending problem and Ontario is now the most indebted sub-sovereign borrower in the world. Why should we trust your plan?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most. This year and last,

Ontario's debt-to-GDP ratio has improved from 39.6 per cent in the 2016 budget, to a forecasted 37.8 per cent in 2016-17, and it continues to track downward.

Our plan is also helping to grow the economy, with the largest investment in public infrastructure in the Province's history — more than \$190 billion over 13 years starting in 2014-15. New schools, hospitals and transit projects are improving quality of life and creating jobs in communities across Ontario.

Supporting ongoing economic growth is a top priority and we are encouraged by the influx of many innovative and dynamic businesses that are investing across the Province, bringing good jobs, higher wages and greater prosperity to our communities. We will continue to implement our balanced plan to build a healthy and sustainable economy for all of Ontario.

34. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan and your failure to address the Province's growing debt. How do you respond?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade the government has rebuilt our electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$50 billion has been invested to modernize the system.

We have heard from people across the Province that the price of electricity has risen too quickly, which is why our plan will ensure costs are shared more fairly over the years ahead.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

With respect to debt, we remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

- **Revenue**

35. How much money did you bring in in 2016-17?

Provincial revenues increased by \$4.6 billion, or 3.4 per cent over the previous year. This increase was due in part to nominal GDP growth of 4.6 per cent in 2016, which contributed to higher taxation revenues. There were also higher transfers from the federal government – including the Canada Health Transfer, Canada Social Transfer and funding for infrastructure projects.

Taxation revenues were \$2.5 billion, or 2.8 per cent higher-than-projected in the 2016 budget. Corporate tax revenues were \$2.8 billion higher. This was due to stronger-than-expected revenues from tax returns. Sales tax revenues were \$0.8 billion higher, due to Ontario's larger share of the HST, and the strong housing market contributed \$0.7 billion more in land transfer tax revenues.

Transfers from the Government of Canada were \$0.6 billion lower than the 2016 Budget forecast. This was mainly due to lower-than-expected funding for infrastructure projects and other payments for government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

Fees, donations and other revenues from broader public sector organizations were \$0.6 billion higher than the budget forecast, mainly due to higher-than-expected revenues from non-provincial sources for hospitals, and higher international tuition fees.

- o **Asset Sales**

36. One-time asset sales are a way to bring in money, but isn't this burning the furniture to heat the house when it comes to a long-term revenue strategy?

We are committed to dedicate net revenue gains from the sale of designated assets to the Trillium Trust, which is helping to fund transit, transportation and other key infrastructure projects across Ontario.

The government has already credited the Trillium Trust with \$1.35 billion from the sale of Ontario's shares in General Motors along with \$3.96 billion from the sale of Hydro One shares and the sale of the LCBO head office lands. In addition, the sale of the government's interest in Hydro One Brampton Networks Inc. resulted in a gain on sale recognized in 2016-17 of \$109 million. The government has committed to crediting the net proceeds from the sale of Hydro One Brampton to the Trillium Trust.

See section: Trillium Trust for more information.

o Transfers from the Federal Government

37. Transfers from the federal government were lower than expected. Aren't you banking on another entity to get your fiscal house in order?

The Government of Ontario, like all Provinces in Canada, receives funding from the federal government. These transfers are done on an ongoing basis to help provide programs and services.

Transfers from the Government of Canada were lower than the 2016 Budget forecast by \$0.6 billion. This was mainly due to lower-than-expected funding for infrastructure projects and other federal payments including transfers to government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

o Revenue from International Tuition Fees

38. International tuition fees helped the Province's bottom line but isn't this on the backs of young people who want to learn here?

Ontario is focused on attracting top talent from around the world that will enhance student learning, increase economic viability, and support growth of a highly skilled workforce.

International education enriches the academic, social and cultural life of our colleges and universities, from classrooms to research laboratories, and creates stronger ties between Ontario and other global jurisdictions.

Ontario welcomes the talent and energy that international students bring to the province. Many international students are future Canadians, who choose to stay and build on their experiences and education here in Ontario.

Over the past five years, international student enrolment in Ontario grew by 87% overall, 70% in public universities and 118% in public colleges.

In 2016-17, there were 98,685 full-time international students from more than 175 countries studying at publicly-assisted institutions in Ontario. This represented a 16% growth over the last academic year.

The province is developing a comprehensive and sustainable international strategy that builds on the strengths of our postsecondary system, reinforces our reputation for quality, and makes Ontario a welcoming destination and partner of choice.

For further questions, I direct you to contact my colleague at the Ministry of Advanced Education and Skills Development.

- **Program Spending**

39. Program spending increased again this year. Why?

(Top Media Question - updated September 5, 2017)

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;

- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

40. You finally balanced the budget and now you're spending more on expensive election promises like free pharmacare for children and youth 24 and younger. Why aren't you paying down debt instead?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Providing more access to vital services isn't just an investment in our future. It's the right thing to do.

• **Credit Rating**

41. Does a qualified opinion impact the Province's credit rating?

(Top Media Question - updated September 5, 2017)

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

42. What do you say to the credit rating agencies that have highlighted provincial debt as an area of credit weakness?

As recently presented in the 2017-18 First Quarter Finances, we continue to project a balanced budget in 2017-18, unchanged from the 2017 Budget.

With stronger-than-expected first quarter economic growth and the government's responsible approach to fiscal management, we can continue to invest in programs and services that help people across the Province.

Ontario's economy continues to grow at a steady pace despite an uncertain global environment. Most key economic indicators show that growth continues in the second quarter. Our plan is working.

We remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

43. What is your credit rating as it stands today?

Following the release of the 2017 Budget, all four rating agencies have confirmed Ontario's long-term credit ratings. This reflects rating agencies' confidence in our government's plan to grow Ontario's economy and create jobs for Ontarians.

If pressed:

Ontario's ratings are:

	<u>Long-Term</u>	<u>Short-Term</u>
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

o C.D. Howe Institute

44. Why does the C.D. Howe Institute weigh in on the government's fiscal situation?

The C.D. Howe Institute is an independent not-for-profit research institute that supports economically sound public policies. It is widely considered to be Canada's most influential think tank and is a trusted source of essential policy intelligence, distinguished by research that is nonpartisan, evidence-based and subject to definitive expert review.

Each year the C.D. Howe Institute produces a report on its assessment of the fiscal planning and reporting practices of senior Canadian governments. The institute observes that financial reports are a vital tool for understanding

governments' plans and activities.

We consider reports like the C.D. Howe's Fiscal Accountability of Canada's Senior Governments important because they are written by independent experts. Studies such as this are essential for governments to continuously assess and improve their financial planning and reporting.

Trillium Trust

45. What is the Trillium Trust?

The Trillium Trust provides for the dedication of prescribed net revenue gains from the sale of designated assets to support key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014 requires that all expenditures made under the act to support infrastructure investments are to be reflected in the Public Accounts.

Designated assets include the Province's shares of Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.

The Trillium Trust was drawn down by about \$260 million in 2016-17. We expect the Trillium Trust to be drawn down by about \$400 million in 2017-18.

The Ministry of Finance shows spending out of the Trillium Trust, with amounts to ministries delivering projects that have received support from the trust reflected in this year's Public Accounts. These figures are included in Volume 1 of Public Accounts.

The funding will help support initiatives, such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

46. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

(Top Media Question - updated September 5, 2017)

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

47. How much is currently in the trust?

The balance of the Trillium Trust as of March 31, 2017, was \$5.05 billion.

This reflects an opening balance of \$1.35 billion; \$3.96 billion credited to the Trillium Trust in 2016–17 from the sale of Hydro One Limited shares and the sale of the LCBO head office lands; and \$0.26 billion in expenditures from the Trillium Trust in 2016–17 toward investments in infrastructure.

Like most large infrastructure investments, initial spending on 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 gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

48. If the Province raised about \$2 billion in the secondary offering of Hydro One shares in 2016, why was only \$538 million credited to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the \$1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target 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.

Digital Tools/Open Government

49. What is the government doing to be transparent in regards to Public Accounts?

As part of our commitment to openness and transparency, we are using data visualization tools to help Ontarians better understand the Province's finances.

This year's tools are available at Ontario.ca/publicaccounts and include:

- Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;
- Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and
- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five last year.

These tools help make the Province's finances easier to understand, access and use, and are part of Ontario's commitment to creating a more open and transparent government.

50. How does this help the average Ontarian?

The more information we can provide to Ontarians about where their tax money is going, the better. That is why the government is providing new digital tools online to help Ontarians better understand their government's finances.

For example, our downloadable data sets provide a more accessible view of the information in Public Accounts. Volume 2 itself is three parts and over 1,200 pages. Instead of having to review those 1,200 pages, now that same information is available in one downloadable and sortable table.

Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to creating a more open and transparent government.

51. What are Open Data sets?

The Ontario government is committed to leading the most open, transparent, and accountable government in the country. Public access to information and opening up government data supports this commitment. Ontario is the first province in Canada to adopt the International Open Data Charter.

The International Open Data Charter contains a set of six principles that will build on Ontario's open by default data policy to increase civic participation, openness and accountability.

Ontario Releases 2016-17 Public Accounts

Province Balancing the Budget This Year, Helping Families Get Ahead

September 7, 2017

NEWS

Today the province released the Public Accounts of Ontario, showing that Ontario's deficit for last year was \$991 million—\$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Budget.

This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.

Ontario is on track to balance the [budget](#) this year, in 2017-18, while making investments in the programs and services people and families rely on most.

Other highlights from this year's Public Accounts include:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of \$140.7 billion, up \$2.2 billion from the 2016 Budget projection
- Total spending of \$141.7 billion, down \$0.1 billion from the 2016 Budget projection
- Interest on debt of \$11.7 billion, down \$0.7 billion from the 2016 Budget projection

Once again, the government is providing new digital tools [online](#) to help people better understand their government's finances. Presenting the Public Accounts data in innovative visual formats, and releasing more data through Ontario's [Open Data Catalogue](#), is part of Ontario's commitment to [Open Government](#).

Responsibly managing the province's finances is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"For eight years in a row, we have beaten our annual deficit target. We will continue to build on our track record of responsible fiscal management by balancing the budget in 2017-18. At the end of the day, a balanced budget means more funding for the programs and services people and families rely on most."

— Liz Sandals, President of the Treasury Board

"Ontario is on track to balance the budget in 2017-18. We have once again exceeded our fiscal targets by reducing the deficit by \$3.3 billion lower than originally projected in the 2016 Budget. Thanks to the hard work of the people of Ontario, we are leading Canada in economic growth while investing in programs like free tuition and free pharmacare for children and youth. With a balanced 2017 Budget, we will continue to build a stronger, healthier Ontario."

— Charles Sousa, Minister of Finance

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QUICK FACTS

- Ontario's annual deficit fell from a peak of \$19.3 billion in 2009-10 to \$991 million in 2016-17.
- Average annual growth of total government spending has been held to 2.3 per cent over the past five years.
- Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- The 2016-17 Public Accounts compare Ontario's actual financial performance to what was planned in the 2016 Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with independently established standards set out by the Public Sector Accounting Board. Ontario's Auditor General reviews the Public Accounts against these standards and provides an opinion on the province's adherence to them.
- The province's professional accounting staff and the Auditor General's Office use a different interpretation of public sector accounting standards for net pension assets and recognition of market accounts. The province continues to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

BACKGROUND INFORMATION

- Accounting Changes to Ontario's Financial Statements

ADDITIONAL RESOURCES

[Watch the "Public Accounts 101" video](#)

[Public Accounts of Ontario 2016-17](#)

[Understanding Ontario's Budget cycle](#)

[Read the 2016 Budget](#)

[Explore the more than 500 open data sets in the Open Data Catalogue](#)

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Accounting Changes to Ontario's Financial Statements

September 7, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing [this year's Public Accounts](#), Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's office engaged in discussions on the appropriate application of PSAB pension accounting standards for the province's two jointly sponsored pension plans. An independent Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver advice and recommendations to the province.

After careful study, [the independent panel members released their report](#). It concluded that the province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these net pension assets and the 2015-16 financial statements have been restated to include them.

Accounting for the Independent Electricity System Operator

The [Independent Electricity System Operator \(IESO\)](#), like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. For the 2016-17 reporting year, the IESO began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

PSAB standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority (OPA) merged with IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO has also adopted rate-regulated accounting for its year ending December 31, 2016. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent [annual report](#). These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This change is fiscally neutral and does not impact the province's annual deficit, net debt, or accumulated deficit. This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and OPG are reported using International Financial Reporting Standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

**President of the Treasury Board and Minister of Finance to Release
Ontario's 2016-17 Public Accounts**

September 6, 2017

Liz Sandals, President of the Treasury Board and Charles Sousa, Minister of Finance will make an announcement regarding Ontario's 2016-17 Public Accounts.

Prior to the announcement, a technical briefing will be held with officials from Treasury Board Secretariat and the Ministry of Finance. They will be joined by Uros Karadzic, former member of the province's Pension Asset Expert Advisory Panel.

Date: Thursday, September 7, 2017

Time: 1:00 p.m. Technical briefing
1:45 p.m. Ministers' media availability

Location: Huron Room
Macdonald Block
900 Bay St.
Toronto

From: [Kim, Minzi \(MOF\)](#)
To: [Giroux Namian, Orli \(MOF\)](#); [Martin, Jessica \(MOF\)](#); [Moore, Brynne \(MOF\)](#); [Koukoulas, Sophia \(MOF\)](#); [Elizabeth Mendes \(MOF\)](#)
Cc: [David McLean \(MOF\)](#); [Jamille Clarke-Darshanand \(MOF\)](#); [Matthew Sylvain \(MOF\)](#); [Martha Maloney \(MOL\)](#); [Tibando, Lindsay \(MOF\)](#); [Dianne Lone \(MOF\)](#); [Peter Spadoni \(MCYS\)](#); [Tim Schuurman \(MOF\)](#); [Birks, Ryan \(MOF\)](#); [Ghufran Tarin \(MOF\)](#); [Anna Strathy](#); [Gadi Mayman](#); [Rob Gray \(MOF\)](#); [Brian Lewis \(MOL\)](#)
Subject: FW: Public Accounts - Supporting Materials (Consolidated)
Date: Thursday, September 07, 2017 12:20:10 PM
Attachments: [PA 2016-17 Sousa Briefing 2016-17 Final.pptx](#)
[QAs - PA v2.docx](#)
[Sousa PA remarks Sept 5 2017 v1 CSB policy.docx](#)
[DRAFT-Top Ten OA-Public Accounts-v24_20170906_CLEAN.DOCX](#)
[PA2016-17 Technical Questions & Answers.docx](#)
[DRAFT_Public Accounts 2016-17 OA September 6 2017_CLEAN.DOCX](#)
[PA 2016-17 NR_FINAL.DOCX](#)
[PA 2016-17 NR_Backgrounder_Acct Changes_FINAL.DOCX](#)
[PA 2016-17 Media Advisory_FINAL_2_COPO.DOC](#)
[Public Accounts Technical Briefing 201617_Final.pptx](#)
[Pension Panel Slides_2016-17 PA Tech Briefing_Final.pptx](#)

Updated:

- *Final - News Release
- *Final - Backgrounder
- TBS – Top Media Q&A
- *Update - TBS – Comprehensive Q&A (Captures MOF items in more details)
- *New – TBS – Technical Q&A
- MOF – Additional Q&A
- Minister’s remarks
- Minister’s Briefing deck
- *New – Media Advisory
- *New – TBS – Technical Briefing
- *New – TBS - Summary of Pension Asset Expert Advisory Panel

Please refer to these documents.

Thanks,
Minzi

From: Kim, Minzi (MOF)
Sent: September 7, 2017 11:53 AM
To: Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>; Martin, Jessica (MOF) <Jessica.Martin@ontario.ca>; Moore, Brynne (MOF) <Brynne.Moore@ontario.ca>; Koukoulas, Sophia (MOF) <Sophia.Koukoulas@ontario.ca>; Mendes, Elizabeth (MOF) <Elizabeth.Mendes@ontario.ca>
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Anna (OFA) <Anna.Strathy@ofina.on.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Gray, Rob (MOF) <Rob.Gray@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>

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Updated:

- ***Final** - News Release
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- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck
- ***New** – Media Advisory

From: Kim, Minzi (MOF)

Sent: September 7, 2017 10:58 AM

To: Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>; Martin, Jessica (MOF) <Jessica.Martin@ontario.ca>; Moore, Brynne (MOF) <Brynne.Moore@ontario.ca>; Koukoulas, Sophia (MOF) <Sophia.Koukoulas@ontario.ca>; Mendes, Elizabeth (MOF) <Elizabeth.Mendes@ontario.ca>

Cc: McLean, David (MOF) <David.McLean@ontario.ca>; Clarke-Darshanand, Jamille (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Sylvain, Matthew (MOF) <Matthew.Sylvain@ontario.ca>; Maloney, Martha (MOF) <Martha.Maloney@ontario.ca>; Lone, Dianne (MOF) <Dianne.Lone@ontario.ca>; Tibando, Lindsay (MOF) <Lindsay.Tibando@ontario.ca>; Spadoni, Peter (MOF) <Peter.Spadoni@ontario.ca>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tarin, Ghufuran (MOF) <Ghufuran.Tarin@ontario.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Gray, Rob (MOF) <Rob.Gray@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>

Subject: Public Accounts - Supporting Materials (Consolidated)

Hello -

Here's the complete list of all the Public Accounts supporting materials that are being prepared by TBS & MOF

- News Release
- Backgrounder
- TBS – Top Media Q&A
- ***TBS** – Comprehensive Q&A (Captures MOF items in more details)
- MOF – Additional Q&A

- Minister's remarks
- Minister's Briefing deck

Please note that majority of these Comms products are still moving, we will share the updated versions as they come in.

Thank you,
Minzi



**OFFICE OF THE PROVINCIAL
CONTROLLER DIVISION**

2016-17 Public Accounts

Highlights Deck

September 7, 2017

Confidential – For Internal Discussion Purposes

2016-17 Financial Highlights



- **2016-17 deficit is \$1.0 billion**
 - \$3.3 billion lower than the projected \$4.3 billion deficit in the 2016 Budget.
 - \$0.5 billion lower than the \$1.5 billion interim forecast presented in the 2017 Budget.
 - \$2.5 billion lower than 2015-16 deficit of \$3.5 billion*.
- **Revenues are \$140.7 billion****
 - \$2.2 billion, or 1.6%, higher than the projected \$138.5 billion in the 2016 Budget.
 - \$0.6 billion, or 0.4%, lower than the projected \$141.3 billion interim forecast in the 2017 Budget.
- **Expenses are \$141.7 billion****
 - \$0.1 billion, or 0.1%, lower than the projected \$141.8 billion in the 2016 Budget.
 - \$1.1 billion, or 0.8%, lower than the \$142.8 billion interim forecast presented in the 2017 Budget.
- **Net debt is \$301.6 billion, an increase of \$6.2 billion in 2016-17. This increase is due to:**
 - Additional borrowing to finance the operating deficit and investments in infrastructure.
- **The Auditor General has issued a qualified Audit Opinion for the 2016-17 Public Accounts, based on a different interpretation of accounting methods for net pension assets and recognition of Independent Electricity System Operator market accounts.**

* 2015-16 deficit restated for removal of impact of regulated pension accounting

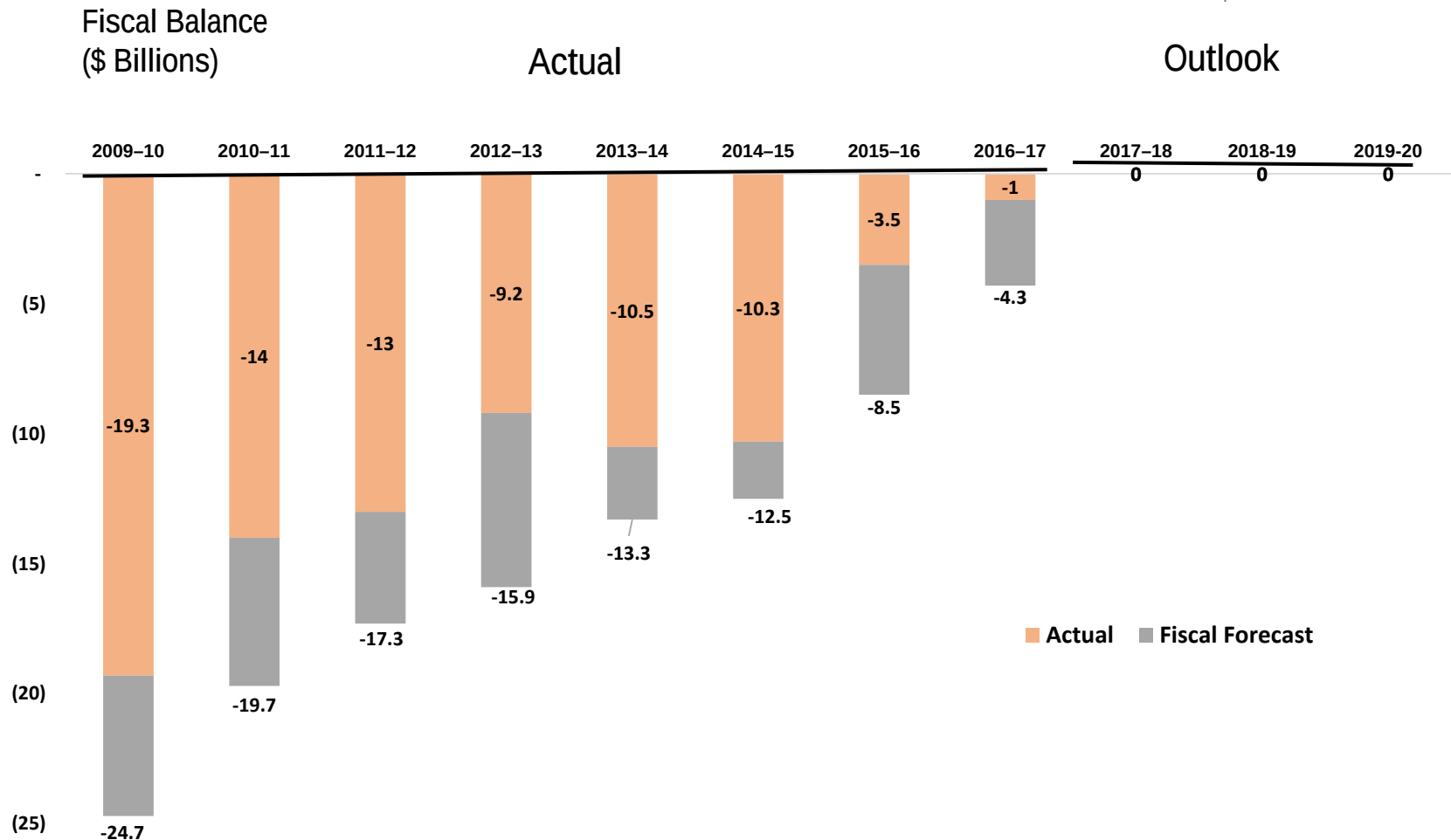
** Revenues for 2016-17 include third party revenues of hospitals, school boards and colleges. In previous years, these third party revenues were netted against the respective sector expenses. This change in presentation increased revenue and expenses by approximately \$8 billion in 2016-17 and \$7.5 billion in 2015-16. This change has no impact on the annual deficit. The prior year financial information and the 2016 Budget have been reclassified to reflect this change.

Auditor General Opinion



- Two qualifications in the audit opinion
 - Pension assets (\$12.4 billion increase to net debt and accumulated deficit; \$1.4 billion increase to deficit → \$2.4 billion deficit per AG)
 - Pension Panel identified as a “non-authoritative” source on application of Public Sector Accounting Standards (PSAS)
 - Independent Electricity Systems Operator (IESO) changed its accounting policy to recognize \$1.6 billion market accounts assets and the same amount in liabilities (market accounts track mainly buy and sell transactions between electricity power generators and distributors)
 - No impact to annual deficit, net debt or accumulated deficit
 - Other matters paragraphs in opinion
 - Rate-regulated accounting used by IESO in year not permitted under PSAS (used by IESO in year, but impact not material)
 - Future potential material misstatement resulting from “legislated accounting” in Fair Hydro Plan legislation and related regulations;
 - FSD&A does not reflect pension accounting or market accounts appropriately

Ontario's Plan to Eliminate Deficit



¹ Represents the 2017 Budget outlook for 2017-18 to 2019-20. For 2009-10 to 2016-17, actual results are presented. The 2015-16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the 2016 Budget and as described in the 2016-17 Third Quarter Finances.

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; 2015-16 is based on the 2015 Budget.

Highlights: Financial Results



2016-17 Results (as of August 25)								
\$ Billions	Budget	Interim	2016-17 Results	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues	138.5	141.3	140.7	136.1	2.2	1.6%	(0.6)	-0.4%
Expenses								
Programs	129.4	130.9	130.0	128.1	0.6	0.5%	(0.9)	-0.7%
Interest on Debt	12.4	11.9	11.7	11.6	(0.7)	-5.6%	(0.2)	-1.7%
Total Expenses	141.8	142.8	141.7	139.7	(0.1)	-0.1%	(1.1)	-0.8%
Reserve	1.0	-	-	-	(1.0)		-	
Deficit Before Outstanding Items	(4.3)	(1.5)	(1.0)	(3.5)	3.3	-76.7%	0.5	-33.3%

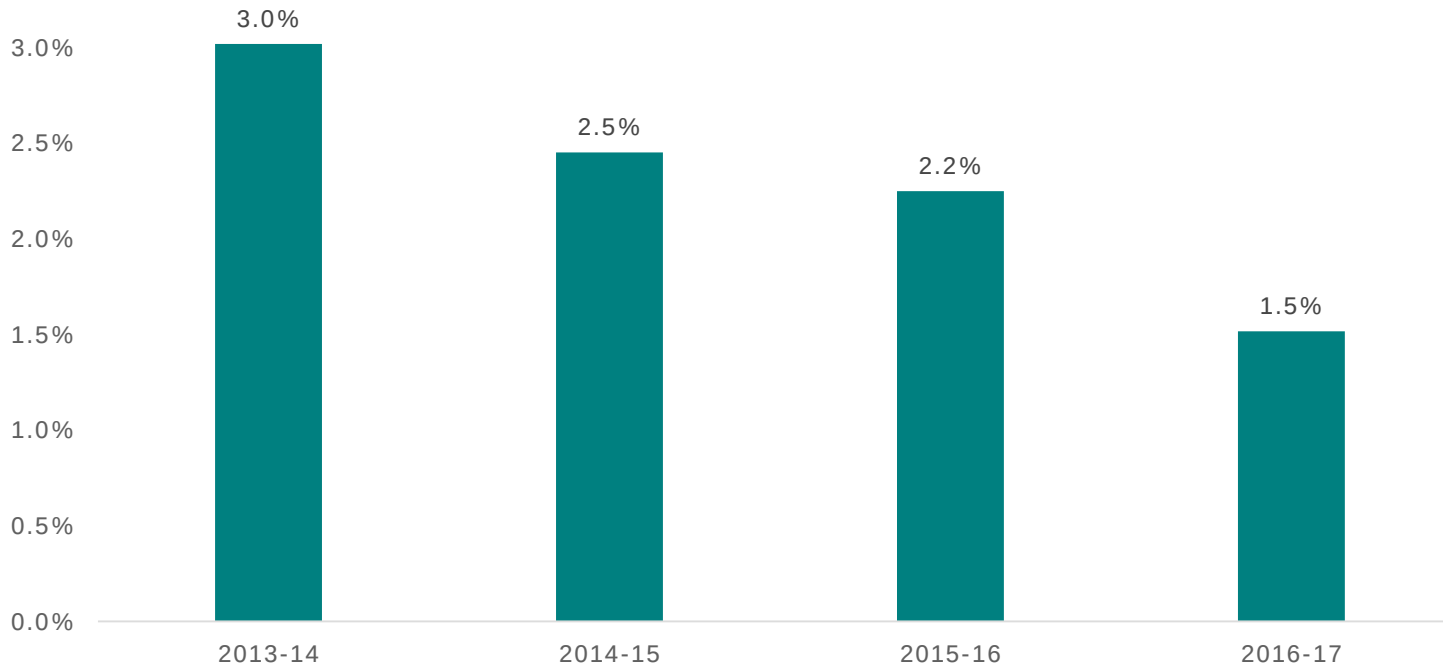
Notes:

(1) For discussion purposes only. Subject to change pending public release.

(2) Budget and Interim numbers are re-stated for BPS line by line reporting (no fiscal impact). 2015-16 Actual have been restated for the reversal of regulated accounting for pensions (published 2015-16 deficit was \$5.0 billion).

(3) Budget/Interim numbers may not add due to rounding.

Annual Program Expense Growth Rate: 2013-14 to 2016-17



Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is \$991 million**. This result is **\$3.3 billion lower** than the \$4.3 billion projected in the 2016 Budget. It is **\$0.5 billion lower** than the interim projection in the 2017 Budget of \$1.5 billion.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. This is part of Ontario's commitment to [Open Government](#).
- The government will continue to build on its track record of responsible fiscal management.

Strategy

- **High profile, proactive, short term** communications approach via traditional, digital and social media.
- Remain **neutral** and **factual**, balancing need for gov't to clearly state its position, while demonstrating respect for all parties involved.
- **Promote** strong financial management, and transparency and accountability.
- **Leverage open data** and other digital components to **profile achievement of 2016 budget commitments**.
- Mitigate potential issues with strong issues management plan.

Communications cont'd



Rollout

- Public release on **September 7** via joint TBS and MOF Ministers' **press conference** and **province-wide news release** with backgrounder.
 - **Technical briefing for media** in advance to present accounting changes, including Ontario's position on accounting for pension assets and IESO in a factual, neutral manner.
- Tactics and messaging will be **reassessed**, as needed, to respond to **AG's position**.

Considerations

- Public Accounts specific:
 - AG's qualified audit opinion (pension asset accounting, IESO accounting treatment of market accounts)
 - AG's criticisms regarding the use of rate-regulated accounting by IESO
 - BPS presentation change
- Other:
 - Questioning balanced budget narrative
 - Growing debt burden
 - Relationship with AG and her criticism of the Fair Hydro Plan

APPENDIX

Revenues – 2016-17 Interim vs. Actual



2016-17 Results (as of August 25)								
\$ Millions	Budget	Interim	2016-17 Actual	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues								
Tax Revenue	91,819	95,063	94,346	91,818	2,527	2.8%	(717)	-0.8%
Transfers from Government of Canada	25,138	24,819	24,544	23,141	(594)	-2.4%	(275)	-1.1%
Income from Government Business Enterprise	5,027	5,297	5,567	4,909	540	10.7%	270	5.1%
Fees, Donations and Other Revenue from Hospitals, School Boards and Colleges	7,404	7,683	7,957	7,493	553	7.5%	274	3.6%
Other Revenue	9,094	8,468	8,320	8,787	(774)	-8.5%	(148)	-1.7%
Total Revenue	138,482	141,330	140,734	136,148	2,252	1.6%	(596)	-0.4%

Consolidated Expense By Ministry Interim vs. Actual (\$M)



	Budget	2016-17 Interim	2016-17 Results	Budget Variance	Budget % Change	Interim Variance	Interim % Change
Aboriginal Affairs	77	99	128	51	66.2%	29	29.3%
Agriculture, Food and Rural Affairs	916	1,074	1,031	115	12.6%	(43)	-4.0%
Attorney General	1,868	1,942	1,937	69	3.7%	(5)	-0.3%
Board of Internal Economy	220	226	219	(1)	-0.5%	(7)	-3.1%
Children and Youth Services	4,346	4,392	4,379	33	0.8%	(13)	-0.3%
Citizenship, Immigration and International Trade	221	179	176	(45)	-20.4%	(3)	-1.7%
Community and Social Services	11,470	11,710	11,627	157	1.4%	(83)	-0.7%
Community Safety and Correctional Services	2,648	2,689	2,681	33	1.2%	(8)	-0.3%
Economic Development, Employment and Infrastructure/Research and Innovation	1,796	1,395	1,234	(562)	-31.3%	(161)	-11.5%
Education	26,545	26,726	26,581	36	0.1%	(145)	-0.5%
Teachers' Pension	(452)	(502)	(377)	75	-16.6%	125	-24.9%
Energy	393	926	920	527	134.1%	(6)	-0.6%
Environment and Climate Change	531	531	523	(8)	-1.5%	(8)	-1.5%
Executive Offices	44	49	47	3	6.8%	(2)	-4.1%
Finance	966	899	841	(125)	-12.9%	(58)	-6.5%
Interest on Debt	12,412	11,908	11,709	(703)	-5.7%	(199)	-1.7%
Municipal Partnership Fund	505	505	526	21	4.2%	21	4.2%
Power Supply Contract Costs	643	739	838	195	30.3%	99	13.4%
Government and Consumer Services	607	617	600	(7)	-1.2%	(17)	-2.8%
Health and Long-Term Care	55,786	56,345	56,025	239	0.4%	(320)	-0.6%
Labour	309	310	308	(1)	-0.3%	(2)	-0.6%
Municipal Affairs and Housing	1,060	1,541	1,544	484	45.7%	3	0.2%
Natural Resources and Forestry	819	862	859	40	4.9%	(3)	-0.3%
Northern Development and Mines	791	837	814	23	2.9%	(23)	-2.7%
Office of Francophone Affairs	6	5	5	(1)	-16.7%	-	0.0%
Tourism, Culture and Sport	1,339	1,537	1,540	201	15.0%	3	0.2%
Training, Colleges and Universities	10,198	10,182	10,131	(67)	-0.7%	(51)	-0.5%
Transportation	3,850	3,688	3,637	(213)	-5.5%	(51)	-1.4%
Treasury Board Secretariat	322	251	240	(82)	-25.5%	(11)	-4.4%
Contingency Fund	1,200	30	-	(1,200)	-100.0%	(30)	-100.0%
Employee and Pensioner Benefits	1,152	1,163	1,002	(150)	-13.0%	(161)	-13.8%
Year End Savings	(800)			800	-100.0%		
Total Expense	141,788	142,855	141,725	(63)	0.1%	(1,130)	-0.8%

**Ontario Public Accounts
Sept. 7, 2017
Q&As**

Key Messages:

- The Ontario economy remains strong and has continued to grow and create jobs in an uncertain global environment.
- This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$0.5 billion lower than the interim projection in the 2017 Budget.
- Balancing the budget means the government can invest more in the programs and services that people rely on.

Q&As:

What is Ontario's fiscal outlook? Has it changed since you released the 2017 Budget?

In 2010 we made a commitment to restore balance in 2017–18 and we delivered on that commitment. We are also projecting continued balance in both 2018–19 and 2019–20.

This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Budget.

Balancing the budget means the government can invest more in the programs and services that people rely on.

What is the current outlook for the Ontario economy?

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

How does the Bank of Canada interest rate increase affect economic growth in Ontario?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost. That cost is also impacted by other factors, including revisions to the U.S. Federal Funds Rate.

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Didn't the FAO say that the Province's economic growth and revenue projections are too optimistic?

Over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth outpacing all the G7 countries over the last three years.

Since the FAO released their post-Budget analysis most private-sector economists have revised up their forecast for Ontario real GDP growth, reflecting the strength of the Ontario economy.

According to the average of private-sector forecasts, Ontario real GDP growth in 2017 has risen to 2.8% from 2.4% at the time of the Budget. As well, over the next four years Ontario real GDP growth is expected to average 2.3% annually, up from 2.1% annually at the time of the Budget. The outlook for nominal GDP growth has seen a larger improvement.

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

Minister Sousa's Speaking Notes
Media Avail Sept. 7, 2017
Public Accounts of Ontario 2016-17

- The release of the [2016-17](#) Public Accounts is an important time for the Government of Ontario.
- The accounts demonstrate how we are improving the everyday lives of the people of Ontario.
- Our plan is working.
- Ontario is projected to balance the budget in 2017-18.
- We are restoring balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.
- Managing spending has been a priority for us, and we are proud to say today Ontario has the lowest per-capita program spending among all Canadian provinces.
- And we are making investments in key services such as health care and education, while at the same time lowering costs for necessities like electricity and child care.
- With a balanced budget we can continue to make investments in these key areas while also responding better to unexpected economic or demographic changes.
- Balancing the budget is not just about the bottom line — it's about helping families and businesses by providing the supports they need to succeed.

- In addition to balancing the budget, we're also tackling debt. Our continued focus on capital investment is contributing to economic growth — and that means the GDP is growing more quickly than debt.
- Since 2010, Ontario's economic performance has remained strong.
- This growth will help us lower Ontario's net debt-to-GDP ratio to the pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- Ontario's recovery from the global recession was driven by sticking to key economic principles and supported by long-term job recovery through our large-scale infrastructure investments.
- We will continue to move forward on our path to balance while building a stronger and more vibrant Ontario we can all be proud of.
- Thank you.

PUBLIC ACCOUNTS 2016-17

Top Media Qs & As

September 6, 2017

1. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

- 5. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary.

The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. . How is the government preparing for this and will this affect your ability to maintain a balanced

budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017-18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has

invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

Public Accounts 2016–17

Technical Questions & Answers

ACCOUNTING CHANGES	1
IESO - ACCOUNTING CHANGES.....	1
PENSION - ACCOUNTING CHANGES	2
HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES	3
PRESENTATION CHANGE TO BPS ORGANIZATIONS	4
DEBT	5
RISK MANAGEMENT	7
INTEREST ON DEBT (IOD)	8
DEBT MANAGEMENT.....	9
REVENUE	11
EXPENSES BY SECTOR.....	16
HEALTH	16
Summary of 2016-17 Budget to Actual Variance Analysis	16
Summary of Five Year Expense Actual Variance Analysis	16
EDUCATION	17
Summary of 2016-17 Budget to Actual Variance Analysis	17
Summary of Five Year Expense Actual Variance Analysis	17
CHILDREN'S & SOCIAL SERVICES	18
Summary of 2016-17 Budget to Actual Variance Analysis	18
Summary of Five Year Expense Actual Variance Analysis	18
JUSTICE	19
Summary of 2016-17 Budget to Actual Variance Analysis	19
Summary of Five Year Expense Actual Variance Analysis	19
OTHER PROGRAMS.....	20
Summary of 2016-17 Budget to Actual Variance Analysis	20
Summary of Five Year Expense Actual Variance Analysis	20
ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS	21
TEACHER'S PENSION PLAN	21
EMPLOYEE AND PENSIONER BENEFITS	22
HEALTHCARE OF ONTARIO PENSION PLAN	23
COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN	23
INFRASTRUCTURE	24
Infrastructure Expenditures Table	24
CORPORATE AND ELECTRICITY FINANCE DIVISION	27
Asset Optimization and the Trillium Trust.....	27
ELECTRICITY SECTOR	29
2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast].....	29
2016–17 vs Interim 2016-17 [Actual vs Interim Forecast].....	30
2016–17 vs 2015-16 [Actual vs Previous Year].....	31
Electricity Sector Stranded Debt	32
RESERVE FUND.....	33
RESULTS VERSUS 1 ST QUARTER REPORT	34
UNCOLLECTIBLE ACCOUNTS RECEIVABLE.....	35
LOSSES DELETED FROM THE ACCOUNTS.....	37

ACCOUNTING CHANGES

IESO - ACCOUNTING CHANGES

Q. What were the accounting changes made by IESO in its financial statements?

- A. As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

In addition, the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by the IESO on behalf of the IESO administered market at year end.

Q. What is the impact of IESO's accounting changes to the Province's Consolidated Financial Statements?

- A. Given the IESO prepared its financial statements using Public Sector Accounting Standards and its auditor issued an un-qualified audit report for 2016 financials, Province will consolidate IESO using similar accounting as adopted by the IESO and reflected in its 2016 financials. There would be no fiscal impact for market accounts; however, IESO's adoption of rate-regulated accounting resulted in a decrease of \$82 million in the 2016–17 opening accumulated deficit, and an increase in the 2016–17 annual deficits by \$24 million.

PENSION - ACCOUNTING CHANGES

Q. What were the pension accounting changes made by the Province in its Consolidated Financial Statements?

- A. The 2016–17 Consolidated Financial Statements reflect a change in accounting for net pension assets of the Province's jointly sponsored pension plans, as compared to the 2015–16 Consolidated Financial Statements. The change affects the Province's accounting for both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

In the 2015–16 Consolidated Financial Statements, the Province legislated the accounting treatment for pension assets of OTPP and OPSEUPP in order to reflect the Auditor General of Ontario's view that a full valuation allowance was required based on the view that the government does not have a legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or, in the absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions. The legislation required that a full valuation allowance be recorded against the pension assets of OTPP and OPSEUPP, therefore writing down the value of the assets as at March 31, 2016, to nil.

After significant consultation, including consideration of the recommendations of the Pension Asset Expert Advisory Panel, the Province has confirmed that the accounting for its jointly sponsored pension plans prior to 2015–16 was appropriate and in accordance with Public Sector Accounting Standards. The 2016–17 Consolidated Financial Statements reflect the confirmed accounting treatment and record pension assets on the same basis as used by the Province in preparing its Consolidated Financial Statements prior to 2015–16.

HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES

Q. What were the accounting changes made by the Province to consolidate Hydro One and Ontario Power Generation in its Consolidated Financial Statements?

- A. Commencing April 1, 2016, the Province is accounting for the results for Hydro One Limited and Ontario Power Generation using the modified equity basis and IFRS (including IFRS 14). Previously, the Province had used Generally Accepted Accounting Principles in the United States (US GAAP), the accounting standards used by these entities in preparing their stand-alone financial statements, in applying the modified equity basis. Historically, the difference between IFRS and US GAAP with respect to the annual deficit of the Province was not material.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of \$1.6B. The transitional adjustment is predominantly related to the difference in accounting for Asset Retirement Obligation and pension and other post-employment benefits.

PRESENTATION CHANGE TO BPS ORGANIZATIONS

Q. Why is the Province changing its accounting of its BPS organizations (i.e. hospitals, school boards and colleges)?

- A. Province changed the presentation of hospitals, school boards and colleges to present third-party revenues of these organizations with revenues of the Province. Previously third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses. The change was made to fully comply with Public Sector Accounting Standards. For comparability and consistency purposes, the prior years' results and the 2016 Budget have been reclassified to reflect this change in presentation.

Q. What are the impacts of the change on the deficit / debt of the Province and key financial indicators?

The presentation change increases the total revenues and expenses of the Province, but does not affect the annual deficit, net debt or accumulated deficit of the Province. Therefore, there is no change to key financial indicators related to annual deficit, net debt or accumulated deficit.

The Province's interest on debt expenses will increase marginally since the interest expense of BPS entities previously included in sector expenses will now be presented as part of the Province's interest on debt expense. However, since total revenues will be grossed up, the debt charge to total revenue and net debt to total revenue will be favorably impacted.

Total program spending per capita will be higher due to the gross up of program expense.

DEBT

Q. Why did net debt increase by \$6.3 billion, from \$295.4 billion as at March 31, 2016 to \$301.6 billion as at March 31, 2017?

A. Net debt is the province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of \$6.3 billion in net debt is primarily due to the deficit and investments in capital assets.

Q. Why did net debt to GDP decrease from 38.7 percent as at March 31, 2016 to 37.8 percent as at March 31, 2017?

A. The decrease in net debt to GDP is mainly due to GDP growing at a faster rate than net debt. The government is committed to eliminating the deficit by 2017-18 and then reducing the net debt to GDP ratio to the pre-recession level of 27 per cent.

Q. How do you explain the \$5.7 billion increase in total debt from \$327.4 billion at March 31, 2016 to \$333.1 billion at March 31, 2017?

A. The increase in \$5.7 billion in total debt is due to borrowing for the deficit (\$1.0 billion) and the net change in capital assets (\$4.7 billion) for 2016-17.

Q. Why has total debt gone up by \$5.7 billion while the accumulated deficit has gone up by only \$1.5 billion?

A. Total debt represents all borrowing that is used to fund the deficit, as well as to invest in capital assets and cash reserves. Accumulated deficit is the sum of all deficits less surpluses since Confederation.

Total debt increased by \$5.7 billion primarily in order to fund the deficit as well as the Province's investments in capital assets, which are not reflected in the deficit.

Q. What is the difference between total debt and net debt?

A. 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. Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q. Why has net debt increased by \$0.27 billion from the interim estimate in the 2017 Budget, while total debt has increased by \$0.7 billion from the interim estimate?

A. Net debt is the province's total debt and other liabilities, less its financial assets.

Net debt increased by \$0.27 billion from the interim estimate primarily due to:

- o \$0.53 billion decrease from the interim deficit, offset by a \$0.26 billion impact relating to various other adjustments as evidenced in the audited Consolidated Statement of Net Debt (Ontario Nuclear Funds, Tangible Capital Assets, IFRS transitional impact for OPG and Hydro 1, pension adjustments and other).

Total debt is all of the Province's borrowings. The total amount borrowed has increased by \$0.7 billion from the interim estimate primarily due to the increase in short term borrowing.

Q. How will the 2016-17 Public Accounts affect the borrowing requirement for 2017-18?

A. As in past years, any changes in the borrowing requirement arising from Public Accounts will be determined as part of the 2017 Economic Outlook and Fiscal Review.

Q. How much debt was issued in 2016-17, and how much debt matured during the year under the Province's borrowing program?

A: The Province completed an annual borrowing program of \$27.0 billion in 2016-17.

Long-term debt maturities per the 2017 Budget were \$20.9 billion.

RISK MANAGEMENT

Q. What is your current policy on foreign currency exposure?

- A. The Province limits itself to a maximum foreign exchange exposure of 5 per cent of Debt Issued for Provincial Purposes. The foreign currency exposure as at March 31, 2017 was 0.2 per cent.

Q. What is your current policy on controlling interest rate exposure?

- A. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of Debt Issued for Provincial Purposes. The interest rate exposure as at March 31, 2017 was 11.2 per cent.

INTEREST ON DEBT (IOD)

Q. Why is the Actual IOD for 2016-17 of \$11,709 million lower by \$703 million than the 2016 Budget (restated) forecast of \$12,412 million?

A. IOD is \$703 million lower than the forecast in the 2016 Budget primarily because of lower than forecast deficit, lower than forecast interest rates projected in the 2016 Budget and cost-effective debt management.

Note, the 2016 Budget forecast was restated to include the interest on debt of the broader public sector due to the change in accounting reporting policy this fiscal year.

Q. Why is IOD for 2016-17 of \$11,709 million higher by \$120 million than IOD for 2015-16 of \$11,589 million?

A. IOD is higher by \$120 million from last year, mainly due to increased borrowing to the fund of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

DEBT MANAGEMENT

Q. You talk about balancing the budget, but Ontario's debt continues to grow. How is the government paying down the debt?

A. Investors and rating agencies are focused on relative debt measures such as the net debt-to-GDP. 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.

Q. 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?

A: 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.

Q. 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?

A: There is a strong demand for Ontario bonds. Such 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 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast per the 2017 Budget is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 26 fiscal years from 1991–92 to 2016–17, and is projected to remain low over the forecast horizon to 2019–20.

Q. What if interest rates go up? What effect would higher interest rates have on interest-on-debt?

A: As indicated in Note 3 of the audited consolidated financial statements in the Annual Report, a one per cent increase in interest rates above our budget forecast would result in an increase in interest on debt of approximately \$300 million.

Q. What's the difference between 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. Did you use your reserve fund to pay your fiscal results and pay down the debt?

A The Reserve is an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook as reflected through impacts to Provincial revenue and expenses, not typically balance sheet items like Public Debt.

Actual costs incurred by the government which pertain to the Reserve are recorded as expenses. Any portion of the reserve that remains unutilized at the end of the fiscal year is used to reduce the deficit.

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

A: 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 2017-18 to 2019-20, average long term public borrowings are estimated to be \$32 billion per annum.

REVENUE

2016-17 Actual Vs. 2016 Budget Plan

Q: Why are revenues \$2.2 billion higher your 2016 Budget projection?

A: This is mostly because of stronger-than-expected taxation revenues and higher net incomes from Government Business Enterprises, partially offset by lower Government of Canada Transfers and Other non-tax revenues.

Q: What accounts for the \$2.5 billion increase in Taxation revenues from your 2016 Budget projection?

A: Largely due to stronger Corporations Tax revenues resulting from higher-than-projected tax assessments and higher HST and LTT revenues arising from stronger economic growth, partially offset by weaker PIT revenues reflecting weaker-than-expected 2016 tax assessments.

Q: What accounts for the \$0.6 billion decrease in Government of Canada Transfers?

A: This decrease mainly reflects lower-than-anticipated funding for infrastructure projects and other federal payments, including transfers to government agencies, hospitals, school boards, and colleges. This decline is partially offset by new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education.

Q: What accounts for the \$0.5 billion increase in net income of Government Business Enterprises?

A: This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO) and Ontario Lottery and Gaming Corporation (OLG).

Higher LCBO net income mainly reflects the sale of its head office lands and higher OLG net income is due mainly to higher-than-anticipated revenue from lottery and casinos businesses.

The increase in OLG and LCBO net income, however, was partially offset by lower net income from OPG reflecting the impact of provincial accounting consolidation adjustment (-\$75M) using International Financial Reporting Standards (IFRS) rather than US GAAP, as required in Public Accounts under Public Sector Accounting Standards and lower Hydro One net income reflecting, primarily, impacts from broadening Hydro One provincial ownership from 84% to 70% through the secondary offering.

Q: What accounts for the \$0.6 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase mainly reflects higher-than-expected revenues from non-provincial sources for hospitals, and higher international fee and other revenues from colleges.

Q: What accounts for the \$0.8 billion decrease in Other Non-Tax Revenues?

A: Other Non-tax revenue (NTR) comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of \$0.8 billion in Other Non-Tax revenue is due largely to two main causes:

1. Carbon Allowance Proceeds from the first cap-and-trade program auction held in March 2017 to be recognized in 2017-18 instead of 2016-17 as budgeted; and
2. Lower sales and rentals revenue mainly reflecting gains from the sale of LCBO head office lands reported as income from GBEs in 2016-17 instead of sales and rentals revenue in 2016 Budget.

This decrease is partially offset by higher revenue from Power Supply Contract Recoveries.

Q: Budget 2016 reported revenue projections from carbon allowance proceeds and the first cap-and-trade program auction took place in March 2017. Can you explain why the government would not report the Carbon Allowance Proceeds in 2016-17 fiscal year?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances.

In Budget 2017, no proceeds are reported for fiscal 2016-17. While Ontario held its first carbon allowance auction in March 2017 and received \$472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year. Therefore, proceeds from the first auction will be reported in 2017-18 fiscal year instead of in 2016-17 as budgeted.

2016-17 Actual Vs. 2015-16 Actual

Q: What accounts for the \$4.6 billion year-over-year increase in revenues?

A: The increase is largely due to higher taxation revenues, federal payments and net income of government enterprises, partially offset by lower Other non-tax revenues.

Q: What accounts for the \$2.5 billion year-over-year increase in taxation revenues?

A: The increase in taxation revenue is largely due to stronger CT revenues, higher HST and Land Transfer Tax revenues, partially offset by weaker PIT revenues.

- Stronger CT revenue is mainly a result of higher-than-expected growth in 2016 Tax Assessments and stronger-than-expected harmonized tax assessments for tax years prior to 2015.
- Stronger HST revenue reflects higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- Stronger LTT revenues reflect a very strong Ontario housing market.
- PIT weakness is mainly due to weaker-than-expected 2016 tax assessments. Some of the PIT weakness is due to the extent to which tax payers may have shifted income from future years into 2015 to avoid increases in federal tax rate applied above \$200,000 of taxable income starting from 2016.

Q: What accounts for the \$1.4 billion increase in Government of Canada Transfers?

A: Higher transfers in 2016-17 from federal government mainly reflect higher funding for existing major federal funding programs such as Canada Health Transfer, Canada Social Transfer, and new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education. Transfers under these programs are based on existing federal-provincial funding arrangements and funding formulas.

Q: What accounts for the \$0.7 billion increase in net Income from Government Business Enterprises?

A: This increase mainly reflects higher net income from Ontario Lottery and Gaming Corporation (OLG), and Hydro One Ltd (HOL), and Liquor Control Board of Ontario (LCBO), partially offset by lower net income from the Ontario Power Generation (OPG).

The increase in LCBO net income largely reflects a one-time gain related to the sale of its head office lands. OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos. Higher income from Hydro One mainly reflect lower 2015-16 due to a significant one-time PILs expenses of about \$2.8B as a result of the IPO in November 2015 which led to lower consolidated net income. This impact on net income was partially offset by the impact of the Province's \$2.4 billion proportionate share of Hydro One's recognition of a deferred tax benefit.

The decrease in OPG's net income is primarily due to relatively stronger 2015-16 results of the nuclear funds invested in financial market.

Q: What accounts for the \$0.5 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase largely reflects higher international tuition fee and other revenues reported by colleges and higher revenues from non-provincial sources reported by hospitals.

Q: What accounts for the \$0.5 billion decrease in Other Non-Tax Revenues?

A: Other non-tax revenue comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the prior year.

The overall decline of \$0.5 billion in other NTR largely reflects lower revenue from electricity debt retirement charge (DRC) due to the elimination of DRC for residential consumers, effective January 1, 2016. Other NTR is also lower due to lower sales and rentals and miscellaneous revenue from consolidated government agencies.

2016-17 Actual Vs. 2017 Budget Interim

Q: Why did Taxation revenues decrease by \$0.7 billion above your Interim estimate?

A: The decrease in Taxation revenues is largely due to a decline in PIT revenues which more than offset an increase in CT revenues. PIT weakness reflects weaker-than-expected 2016 tax assessments while stronger CT revenues is mainly due to stronger tax assessments for 2015 and prior years, as well as stronger performance of 2016 Tax assessments than assumed in the 2016 Budget.

Q: What accounts for the \$0.3 billion decrease in government of Canada transfers?

A: This decrease mainly reflects the absence of funding in 2016-17 for Clean Water and Wastewater projects and lower federal transfers to government agencies, including hospitals, school boards and colleges.

Q: What accounts for the \$0.3 billion increase in net Income from Government Business Enterprises?

A: The increase was mostly attributable to higher net incomes from the Ontario Lottery and Gaming Corporation (OLG), and slightly higher net income from the Liquor Board of Ontario (LCBO), and the Ontario Power Generation (OPG). This increase is partially offset by lower net income from Hydro One Ltd.

- OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos.

Q: What accounts for the \$0.3 billion increase in fees, donations and other revenues from broader public sector organizations?

A: The increase is largely due to higher international tuition fees and other revenues reported by colleges and higher revenues from school boards due to third party revenue being reported as federal transfers at interim instead of fees, donations and other revenues as presented in public accounts.

Q: What accounts for the \$0.1 billion decrease in Other Non-Tax revenues?

A: Lower revenues from other Non-Tax revenue largely reflect lower recoveries of prior-year-expenditures and miscellaneous revenues from various government ministries and consolidated government agencies, partially offset by higher Power Supply Contract Recoveries. The latter is fiscally-neutral being offset by higher Power Supply Contract Costs.

EXPENSES BY SECTOR

HEALTH

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Health Sector Expense in 2016-17 higher by \$239 million than in the Budget Plan?

A. Health sector expense that was \$239 million above plan, mainly due to higher than planned spending in hospital operations, physician services, complex malignant hematology and hematopoietic cell transplantation.

The higher expense for hospital operations is mainly due to higher-than-expected spending in cancer treatment, Ontario Drug Programs, specialty psychiatric hospital programs, operating costs and amortization expense.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is the Health Sector Expense \$4.8 billion higher in 2016-17 than 2012-13?

A. Health sector expense increased from \$51.2 billion in 2012–13 to \$56.0 billion in 2016–17, or on average by 2.3 per cent per year. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors, such as new drugs and technologies. Increased spending included new investments in home and community care, long term care homes and mental health, and physician services; as well as specialized services such as cancer treatment.

EDUCATION

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Education sector expense in 2016-17 higher by \$36 million than in the Budget Plan?

A. Education sector expense that was \$36 million higher-than-planned, mainly due to slightly higher than-projected enrolment.

Q. Why is the Post-secondary and training sector expense in 2016-17 lower by \$67 million than in the Budget Plan?

A. Postsecondary and training sector expense that was \$67 million lower than-expected, mainly due to lower-than-forecast demand for employment and training programs, offset in part by increased capital transfer payments to universities through additional federal postsecondary infrastructure funding.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did Education sector expense increase from \$22.6 billion to \$26.6 billion from 2012-13 to 2016-17?

A. Education sector expense increased from \$22.6 billion in 2012–13 to \$26.6 billion in 2016–17, or on average by 4.1 per cent per year. Expense in 2012–13 included a one-time savings of \$1.3 billion from reducing liabilities carried by school boards for sick-day banking and retirement gratuities. Excluding this one-time savings in the 2012–13 results, the education sector expense increased on average by 2.7 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014; and other investments, including negotiated labour enhancements and increases in school renewal funding.

Q. Why have expenses in the Postsecondary and Training Sector increased from \$9.3 billion in 2012-13 to \$10.1 billion in 2016-17?

A. Postsecondary and training sector expense increased from \$9.3 billion in 2012–13 to \$10.1 billion in 2016–17, or on average by 2.2 per cent per year. The increase is mainly due to continued funding to support enrolment growth in postsecondary institutions, growth in student financial assistance programs and increases in postsecondary capital transfer payments.

CHILDREN'S & SOCIAL SERVICES

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Children's and social services sector expense in 2016-17 higher by \$190 million than in the Budget Plan?

A. Children's and social services sector expense that was \$190 million higher than planned, mainly due to additional spending to address demand for the Ontario Disability Support Program and for young adults with complex special needs as well as expanding supports for children and youth with autism.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Children's and Social Services sector actual expense grow by \$2.3 billion from 2012-13 to 2016-17?

A. Children's and social services sector expense increased from \$13.7 billion in 2012–13 to \$16.0 billion in 2016–17, or on average by 3.9 per cent per year. The increase primarily reflects social assistance rate increases as well as investments in developmental services, autism and complex special needs programs and the Ontario Child Benefit.

JUSTICE

Summary of 2016-17 Budget to Actual Variance Analysis

- Q. Why is the Justice sector expense in 2016-17 higher by \$102 million than in the Budget Plan?**
- A. Justice sector expense was \$102 million higher than planned, mainly due to settlements under the Proceedings Against the Crown Act and ensuring wage parity for First Nations police officers.

Summary of Five Year Expense Actual Variance Analysis

- Q. Why has Justice Sector Expense increased by \$652 million from 2012-13 to 2016-17?**
- A. Justice sector expense increased from \$4.0 billion in 2012–13 to \$4.6 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the provincial upload of court security costs from municipalities, compensation in the Ontario Provincial Police and correctional services programs, and improved access to legal aid for low-income Ontarians.

OTHER PROGRAMS

Summary of 2016-17 Budget to Actual Variance Analysis

- Q. Why is Other programs expense in 2016-17 higher by \$140 million than in the Budget Plan?**
- A. Other programs expense that was \$140 million higher than expected, mainly due to federal and provincial investments in social and affordable housing as well as the Ontario Rebate for Electricity Consumers. As well, there was lower-than-forecast spending due to revised timelines for Building Canada Fund projects and municipal transit projects.

Summary of Five Year Expense Actual Variance Analysis

- Q. Why did the Other Programs Sector Actual Expense decrease by \$1.2 billion from 2012-13 to 2016-17?**
- A. Other programs expense decreased by \$1.2 billion from \$17.9 billion in 2012–13 to \$16.7 billion in 2016–17. This decrease is mainly due to the end of time-limited funding related to the Ontario Clean Energy Benefit program and the 2015 Pan/Parapan American Games, as well as the redesign of the Ontario Municipal Partnership Fund program.

ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS

(\$Millions)					
	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Ontario Teachers' Pension Plan	(452)	(377)	110	75	487

TEACHER'S PENSION PLAN

- Q. Why has the 2016-17 Teachers' Pension Plan expense decreased from expense of \$110M from 2015-16 to recovery of \$377M in 2016-17?**
- A. The decrease in Teachers' Pension Plan pension expense is primarily due to increase recognition of investment gains in recent years.
- Q. Why has the 2016-17 Teachers' Pension Plan recovery of \$377M lower than what had been projected in prior year's Budget of \$452M?**
- A. Actual 2016-17 Teachers' Pension Plan recovery of \$377M is lower than recovery of \$452M projected in 2016 Budget due lower than expected rate of growth in active members and due to additional adjustment was made this year to eliminate timing differences between provincial contributions and pension plan assets.

(\$ Millions)					
	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Employee and Pensioner Benefits	1,152	1,002	987	(150)	15

EMPLOYEE AND PENSIONER BENEFITS

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of \$1,002M lower by \$150M from what had been projected in prior year's Budget of \$1,152M?

A. The 2016-17 actual Employee and Pensioner Benefits expense is \$151M lower than originally budget is mainly due to lower WSIB expense than originally forecasted. WSIB had change their estimate of forecast claim administration rate in 2016, which resulted in reduction in expense in 2016-17.

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of \$1,002M higher than 2015-16 Employee and Pensioner Benefit Expense of \$987M?

A. The increase is due to changes made termination pay and long-term protection benefits to OPSEU members in 2015-16 that did not occur in 2016-17. This increase is partially offset by lower WSIB expense due to change in forecast claim administration rate in 2016 and due to lower pension expense as result of increase recognition of investment gains in recent years.

HEALTHCARE OF ONTARIO PENSION PLAN

Q. Why did the Healthcare of Ontario Pension Plan expense decrease by \$155M from \$747M in 2015-16 to \$592M in 2016-17?

A. The Healthcare of Ontario Pension Plan expense decreased compared to prior year's actual mainly due to an increase in amortization of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year over year expenses were partially offset by higher current service costs in 2016 as a result of an increase in active membership in 2015-16.

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN

Q. Why did the Colleges of Applied Arts and Technology Pension Plan expense increase by \$3M from \$190M in 2015-16 to \$193M in 2016-17?

A. The Colleges of Applied Arts and Technology Pension Plan expense increased compared to prior year's actual, mainly due the \$14M write-off of CAATPP net pension plan assets in 2016-17. The plan was not in an asset position as of year-end in 2015-16.

INFRASTRUCTURE

Infrastructure Expenditures Table

Q. Why is the 2016-17 total infrastructure expenditure \$3.3 billion lower than planned in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The forecast in Budget 2016 was subject to change as new information became available throughout the year. Infrastructure spending of \$12.9 billion, reported in the Public Accounts was \$3.3 billion lower than the \$16.2 billion set out in the 2016 Budget.

Underspending is mainly due to slower than expected construction progress in the transit sector (\$2 billion) and health sector (about \$0.5 billion).

Q. Why is the 2016-17 total infrastructure expenditure \$1.4 billion lower than estimated in the interim forecast in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The interim forecast was subject to change as new information became available throughout the year. Infrastructure spending of \$12.9 billion, including other partner funding, reported in the Public Accounts was \$1.4 billion lower than the \$14.3 billion set out in the interim forecast in the 2016 Budget due to slower than expected construction progress in the transit sector (\$0.5B) and education sector (\$0.4B).

Q. Actual infrastructure expenditures are \$3.3 billion below the budgeted amounts. Doesn't this mean you should adjust your forecasting practices? Does this mean 2016-17 planned expenditures are overstated?

A. Infrastructure expenditures forecast for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with the Public Accounts. As new information becomes available throughout the year, the forecasts will likely change (for example, due to updates in construction timelines). In this context it is important to note that infrastructure expenditure forecasts presented as part of Budget or other fiscal updates represents a point in time along this continuum and is based on the best available information at that time.

Given the uncertainties inherent in making projections, it is appropriate for the government to remain prudent and cautious in its forecasting.

The 2016-17 budgeted infrastructure expenditures are a reflection of prudent forecasting practices and the government's ongoing commitment to building and renewing the infrastructure the public relies on.

Q. In 2016-17, actual infrastructure expenditures are \$3.3 billion below the budgeted amounts. Is the \$3.3 billion earmarked for infrastructure in spite of the fact that it hasn't been spent yet, and will it be carried over to another fiscal to be spent on infrastructure? Or does the underspend mean that the \$3.3 billion will be spent on other gov't priorities?

A. The \$3.3 billion expenditure decrease is not earmarked for infrastructure investments or carried over to future years. Future year infrastructure investment decisions are made as part of the annual budgeting process.

The resulting fiscal savings associated with this expenditure decrease is allocated in the government's total program expense figures.

Q. Why has amortization cost gone up so significantly between 2012-13 and 2016-17?

A. Amortization recognizes consumption of Tangible Capital Assets. Amortization expense is primarily made up of amortization on existing assets. As these assets reach the end of their useful lives, the associated amortization disappears. This decline is offset by new amortization expense as new infrastructure projects come into service. Between 2012-13 and 2016-17, the province invested \$53 billion in capital assets. As these assets have come into service, the corresponding consumption cost (amortization) has gone up. As the government continues to invest in infrastructure, amortization expense will continue to grow.

Q. If we invested \$10 billion in publically owned infrastructure assets in 2016-17, why does TCA only go up by \$4.8 billion?

A. The net book value of tangible capital assets is calculated as the book value (purchase price) less accumulated amortization. As long as assets are being amortized, growth in the stock of the Province's TCA on a yearly basis will always be less than the yearly investment. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis. Amortization expense of TCA in 2016-17 totalled \$5.2 billion.

Q. What are some examples of investments made in between 2012-13 and 2016-17?

A. A few examples of the many infrastructure investments Ontario has made over the last five years include:

- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, opened in Spring 2016.
- The Pan/Parapan American Games Athletes' Village, which was home to about 10,000 athletes and officials during the Games. The village will be transformed into a mixed-use neighbourhood with affordable housing, health services and a residence for George Brown College students.
- The Union Pearson (UP) Express, which began service in 2016, provides a dedicated rail link connecting Toronto Pearson International Airport with Union Station in downtown Toronto in 25 minutes.
- The Right Honourable Herb Gray Parkway in Windsor–Essex, provides an express route to the country's busiest land border crossing.
- The Humber College infrastructure project involved the construction of a new Learning Resource Commons and an academic support and student services facility.
- The Elgin County Courthouse brings together existing court facilities within one location in St. Thomas.
- The New Oakville-Trafalgar Memorial Hospital is a state-of-the-art facility accommodating a full range of hospital services including acute care, complex continuing care and rehabilitation.
- The new Humber River Hospital includes a new facility on a new site in north-western Toronto, one of the most culturally diverse and fastest-growing communities in Canada. The Humber River Hospital offers a comprehensive range of services to support inpatient and outpatient programs.

Q. What kind of infrastructure investments does the Province make which do not contribute to the net book value of tangible capital assets?

A. The Province makes transfers to its non-consolidated partners, such as municipalities and universities, for capital purposes. This spending is recorded in the Infrastructure expenditures table (Table 4) as 'Transfers and Other Infrastructure Expenditures.' 'Other Infrastructure Expenditures' includes expenses such as non-capitalized maintenance costs (e.g., window cleaning of provincially owned buildings). These expenses are included as part of overall infrastructure spending, but do not contribute to the net book value of the Province's tangible capital assets.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: If the Trillium Trust has been credited with \$5.3 billion, why did the government only draw down \$260 million in 2016-17?

A: Like most large infrastructure investments, initial spending on 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 gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure. The 2017 Budget included an additional \$400 million to be drawn down in 2017-18.

Q: What projects are being funded through the Trillium Trust?

A: The Trillium Trust was drawn down by about \$260 million in 2016–17 to help support transit, transportation and priority infrastructure across the Province under the Moving Ontario Forward initiative.

As communicated in the 2017 Budget, the Trillium Trust is supporting initiatives such as GO Regional Express Rail, the Hurontario Light Rail Transit, and the Ontario Community Infrastructure Fund.

Q: If the Province raised about \$2 billion in the secondary offering of Hydro One shares in 2016, why was only \$538 million credited to the Trillium Trust?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the \$1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target 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: The Public Accounts show that the government credited the Trillium Trust with a non-cash deferred tax benefit resulting from the Hydro One IPO. How can the government use a non-cash amount to invest in infrastructure?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains to the Trillium Trust.

The deferred tax benefit provided an up-front revenue gain to the Province through consolidation of the Province's portion of Hydro One's net income in the Public Accounts. This also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds. This does not affect the total cash the Province receives.

By dedicating to the Trillium Trust the net revenue gains to the Province from the deferred tax benefit, the government is ensuring that the full benefit of the value created from broadening Hydro One ownership is dedicated to the Trust to support investments in transit and infrastructure.

Q: Why hasn't the government credited the Trillium Trust with the net revenue gains associated with Hydro One shares purchased by OPG and Hydro One shares purchased by trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP) through Provincial loans?

A: The government has made a regulation that will credit the Trillium Trust with the net revenue gains from the sale of shares to the PWU / SEP trusts that were supported by Provincial loans.

The \$48M total gain from the sale of these shares was recorded as deferred revenue in the 2015-16 Public Accounts. As payments of the loan are received, the gain on sale will be recognized annually as revenue in proportion to the payments made.

The annual gain will be reported in the Public Accounts, to clearly indicate the amount to be credited to the Trillium Trust. The first annual gain, as reported in Volume 1 of these 2016-17 Public Accounts is approximately \$1.5 million.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

Q: If the sale of Hydro One Brampton is now complete and the gain is being reported in Public Accounts, why hasn't the Province credited the Trillium Trust from the sale?

A: The government is committed to dedicating the net proceeds from the sale to the Trillium Trust, and will move forward with a regulation under the Trillium Trust Act.

ELECTRICITY SECTOR

2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast]

Q. Why did the combined net incomes of OPG and Hydro One decrease by \$193 million compared to Plan? [Excludes Hydro One Brampton net income variance of \$3 million]

- A. The \$193 million decrease in combined OPG and Hydro One net incomes in 2016-17 from Plan reflects:
- lower-than-projected OPG gross margins, and
 - lower Hydro One Limited net income largely due to re-categorization of impacts of broadening Hydro One ownership (~84% ownership to ~70% ownership through the secondary offering) that were previously reflected under Sales and Rentals revenue. The re-categorization is fiscally-neutral.

Q. Why are Electricity payments-in-lieu of taxes \$151 million lower than Plan?

- A. The variance is primarily due to lower income tax PILs from OPG, partially offset by higher PILs from municipal electrical utilities.

Q. Why are Power Supply Contract Recoveries \$195 million higher than projected??

- A. The actual amount in 2016-17 is higher largely due to the dismissal of the Ontario Electricity Financial Corporation's (OEFEC) appeal of a court decision with respect to the calculation of some escalation rates under legacy former Ontario Hydro power purchase contracts with non-utility generators (NUGs), and the subsequent decline of an application for leave to appeal to the Supreme Court of Canada. As a result of the decisions, OEFEC recognized higher power supply contract expenses, fully offset by higher power supply contract recoveries.

2016–17 vs Interim 2016-17 [Actual vs Interim Forecast]

Q. Why did the combined net incomes of OPG and Hydro One increase by \$14 million compared to the Interim forecast for 2016-17?

A. The variance is mainly due to stronger-than-projected results for OPG's nuclear funds contribution, partially offset by the lower Hydro One net income.

Q. Can you explain the \$99 million variance in Power Supply Contract Recoveries between interim numbers in Budget 2017 and actuals [in Public Accounts]?

A. The variance is largely due to retroactive payments that the Ontario Electricity Financial Corporation (OEFC) made to certain non-utility-generators (NUGs) with legacy former Ontario Hydro power purchase agreement (PPA) contracts with OEFC.

OEFC was required to make these payments following the dismissal by the Supreme Court of Canada of OEFC's application for leave to appeal a judgment of the Court of Appeal of Ontario on a 2015 court decision.

- o Ontario Hydro entered into these PPAs in the late 80s and early 90s with private sector generators.
- o As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts.
- o Some of the PPAs had escalation clauses under which the global adjustment has an impact on the calculation of the contract rates.
- o In 2015, a lower court decision found that OEFC had not properly calculated the price paid for electricity under 12 PPAs, following the enactment of Ontario Regulation 398/10, under which the allocation among electricity consumers of the Global Adjustment, one component of the all-in price of electricity, was changed.
- o These 12 PPAs were held by entities that participated in the lawsuit, and they received retroactive payments in 2016, following the Ontario Court of Appeal decision to dismiss OEFC's appeal.
- o Several PPA counterparties with similar price provisions that did not participate in the lawsuit entered into Standstill Agreements with OEFC in 2015, after the original court decision. After all avenues of appeal were exhausted, following the 2017 Supreme Court decision, OEFC was required to make retroactive payments to these entities.

2016–17 vs 2015-16 [Actual vs Previous Year]

Q. Why did Hydro One's net income to the Province increase by \$263 million compared to the previous fiscal year?

- A. Hydro One's net income remains relatively unchanged from 2015-16 to 2016-17. The \$263 million increase in Hydro One net income to the Province, however, is largely due to the impacts of the November 2015 Hydro One IPO.

Hydro One 2015-16 net income to the Province, was lower due to IPO-related factors including a one-time PILs expense of about \$2.8B, partially offset by the \$2.4 billion proportionate impact on the Province's net income from Hydro One's recognition of a deferred tax benefit of about \$2.8 billion.

[The impact of the 2015-16 IPO-related adjustments were partly offset by the impact of the secondary share offering in 2016-17 on the Province's share of Hydro One net income.]

Q. Why did OPG's net income decline by \$121 million compared to the previous fiscal year?

- A. The decrease is due largely to stronger 2015-16 earnings on the nuclear funds on a realized basis.

Q. Why did Electricity Debt Retirement Charge decrease by \$238 million compared to the previous fiscal year?

- A. The DRC trends downwards primarily due to the elimination of the DRC for residential consumers, effective January 1, 2016. The variance reflects the first full year of residential consumer exemption from the DRC in 2016-17.

Q. Why did Electricity payments-in-lieu of taxes decrease by \$2.9 billion from last year?

- A. The increase is primarily due to significant one-time PILs related to Hydro One's IPO, including \$2.6 billion in departure tax under the PILs regime and about \$0.2 billion in additional PILs, as Hydro One exited the PILs regime and started paying corporate income taxes following the IPO. Note that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

Electricity Sector Stranded Debt

Q. What is the status of old Ontario Hydro's stranded debt? When is the Debt Retirement Charge (DRC) expected to end based on the latest available information?

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 thirteenth consecutive year, the stranded debt has been reduced. The 2016–17 results for the OEFC show an excess of revenue over expense of \$1.2 billion. The OEFC has paid down stranded debt by a total of about \$18.5 billion from its peak in 2003-04, reducing stranded debt to \$3.2 billion as at March 31, 2017.

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 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.

RESERVE FUND

Q. Why does the government maintain a reserve fund? Last year there were questions raised about the government dipping into its reserve fund to strengthen its results. Did you do that this year?

A. As required under the Fiscal Transparency and Accountability Act, 2004, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

The 2016 Budget plan included a \$1.0 billion reserve for 2016–17. Excluding this reserve, the 2016 Budget projected a deficit of \$3.3 billion.

As the reserve is a forecast provision, and the fiscal results for 2016–17 are now finalized, a reserve is no longer included in the Province's financial statements.

The final deficit for the 2016–17 fiscal year is \$1.0 billion, a \$3.3 billion improvement compared with the 2016 Budget projection of \$4.3 billion, which included the reserve.

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

A. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending 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 fiscal outlook against unforeseen adverse changes in the Province's revenue and expense – for example, changes in Ontario's economic performance.

RESULTS VERSUS 1ST QUARTER REPORT

- Q. Was the government being overly optimistic in its revenue forecast in the 2017-18 First Quarter Finances based on the Annual Report results for the 2016-17 fiscal year?**
- A. The 2017-18 First Quarter Finances was released before the 2016-17 Annual Report and does not take into account the revised 2016-17 revenue. The government will be updating its revenue outlook in the 2017 Ontario Economic Outlook and Fiscal Review in the fall, which will include the latest 2016-17 results as well as all additional information arriving after the Annual Report.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Q. Why are we removing uncollectible accounts receivable owed to the province from the accounting records?

A. Removing uncollectible accounts receivable is required under Public Sector Accounting Standards. After ministries have taken progressive collection activity and determined that all the collection efforts have been exhausted, those accounts with little or no prospect of collectability are removed from current accounting records.

Q. How will the write-offs be shown in the Public Accounts?

A. The ministries' uncollectible accounts receivable are required to be published in a table called "Losses Deleted from the Accounts" in Volume 2 of the 2016/17 Public Accounts.

Q. Is removing uncollectible accounts receivable from the records the same as forgiving the debt?

A. No. If debt is forgiven, the province cannot pursue or collect on the debt in the future. However, having an account written-off does not eliminate the debtor's legal obligation to pay the liability. The province may attempt to collect the money owed if the debtor's circumstances change in the future. In 2016/17, \$17.3M was collected on accounts previously written off.

Q. How do you determine when a debt is uncollectible?

A. In the vast majority of cases, a debt may become uncollectible when a corporation or individual debtor becomes insolvent or goes bankrupt; or when an individual debtor dies, is imprisoned for a long term or cannot be located for a considerable period of time.

It may take several years of progressive collection actions before an uncollectible account receivable is submitted for removal from the accounting records.

Q. How does this affect the province's bottom line?

A. There is no impact on the deficit/surplus in the year as a result of removing uncollectible accounts from the accounting records.

The fiscal impact incurred in the year when the account was initially identified as being doubtful. At that time, a bad debt expense was recorded.

Q. What is the amount of uncollectible accounts receivable this year?

A. The total uncollectible accounts receivable for 2016/17 is \$267.2 million.

Q. What amount of unpaid taxes is included in the Ministry of Finance's total?

A. The total for tax-related amounts is \$134.2 million, which represents 97% of MOF's submission of \$138.8 million and is attributable to bankrupt or insolvent tax payers.

Q. How does the amount of uncollectible accounts receivable compare with total accounts receivable?

A. This year's uncollectible accounts receivable represent about 2.4% (4.0% in 2015/16) of the province's accounts receivable.

Q. What steps is the government taking to reduce future write-off of accounts receivable?

A. Common progressive collection tools include the use of private collection agencies and the Canada Revenue Agency (CRA) Refund Setoff Program, in addition to any specific legislated tools provided in the appropriate legislation (e.g., clawbacks, liens, director's liability). The centralization of collections within MOF helps ensure a standard, OPS-wide use of such tools.

(AS PRESENTED IN ANNUAL REPORT)

LOSSES DELETED FROM THE ACCOUNTS

(Under the Financial Administration Act)
For the year ended March 31, 2017

	\$ 2016-2017
FINANCE.....	138,818,406.60
ADVANCED EDUCATION AND SKILLS DEVELOPMENT.....	54,677,124.91
COMMUNITY AND SOCIAL SERVICES.....	45,886,186.45
ATTORNEY GENERAL.....	21,642,494.26
TRANSPORTATION.....	3,771,415.55
CHILDREN AND YOUTH SERVICES.....	898,957.06
NATURAL RESOURCES AND FORESTRY.....	847,762.62
HEALTH AND LONG-TERM CARE.....	340,142.56
COMMUNITY SAFETY AND CORRECTIONAL SERVICES.....	98,367.09
TOURISM, CULTURE AND SPORT.....	73,937.72
OFFICE OF THE ASSEMBLY.....	30,471.10
EDUCATION.....	19,896.26
INFRASTRUCTURE.....	17,548.77
AGRICULTURE, FOOD AND RURAL AFFAIRS.....	16,685.11
GOVERNMENT AND CONSUMER SERVICES.....	12,472.33
HOUSING.....	7,038.04
NORTHERN DEVELOPMENT AND MINES.....	6,939.84
LABOUR.....	5,189.48
TOTAL.....	\$267,171,035.75

PUBLIC ACCOUNTS 2016-17

Media Qs & As

September 6, 2017

Contents

Key Messages.....	2
Top Media Qs&As	3
Media Qs&As – Comprehensive List.....	11
General Public Accounts Information	11
Accounting Changes	11
• Broader Public Sector Accounting Presentation Change	12
• Ontario Power Generation and Hydro One Accounting Change	13
• Pension Asset Accounting	13
• Independent Electricity System Operator (IESO) Accounting Changes	13
Auditor General – Qualified Opinion.....	14
• Pension Asset Accounting	15
• IESO Accounting	17
• Ontario's Fair Hydro Plan Accounting (Other Matters)	20
Ontario's Fiscal Position.....	22
• Balanced Budget	22
• Debt.....	23
o Financial Accountability Office of Ontario.....	26
o The Fraser Institute	27
o Most Indebted Subsovereign, Future Generations.....	27
• Revenue	29
o Asset Sales	29
o Transfers from the Federal Government	30
o Revenue from International Tuition Fees	30
• Program Spending	31
• Credit Rating	32
o C.D. Howe Institute	33
Trillium Trust	34
Digital Tools/Open Government	36

Key Messages

- The 2016-17 Public Accounts of Ontario show that Ontario's deficit is \$991 million.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future. A balanced budget means more funding for the programs and services people and families rely on most.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to [Open Government](#).
- The government will continue to build on its track record of responsible fiscal management.

Top Media Qs&As

Top media Qs&As updated September 5, 2017

1. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

- 5. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province -- in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To

ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

Media Qs&As – Comprehensive List

General Public Accounts Information

1. What is Public Accounts?

The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.

2. Why can't I find some organizations' financial statements in the Public Accounts?

Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. At the time of print, some organizations may not have had time to provide their financial statements. When this happens, we post them to Ontario.ca/publicaccounts as soon as they're available. The omission has no impact on the financial results reported in Public Accounts.

Accounting Changes

3. Why have you restated prior year's financial statements?

When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

These changes include:

- a. **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
- b. **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

- c. **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
- d. **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

- **Broader Public Sector Accounting Presentation Change**

- 4. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**
(Top Media Question - updated September 5, 2017)

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

- 5. **What is consolidated reporting?**

This presentation change may also be referred to as line-by-line consolidated reporting. This type of reporting is a more transparent way of presenting the details in the Broader Public Sector (BPS).

This change means that both expenses and revenues will be shown as separate items (on a gross basis), as opposed to being reported together (on a net basis). This affects what you see in the reporting breakdown of figures for hospitals, school boards, colleges and universities. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

- **Ontario Power Generation and Hydro One Accounting Change**

6. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

7. What is the impact of this change to the Province's bottom line?

This change has resulted in an adjustment to the opening accumulated deficit and net debt of \$1,163 million, of which \$683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the Province in 2016-17.

- **Pension Asset Accounting**

See section: Auditor General – Qualified Opinion for more information.

- **Independent Electricity System Operator (IESO) Accounting Changes**

8. What accounting changes were made by the Independent Electricity System Operator (IESO)? Why?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The IESO also made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

See section: Auditor General – Qualified Opinion for more information.

Auditor General – Qualified Opinion

9. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

(Top Media Question - updated September 5, 2017)

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

10. This year it's IESO accounting. Last year it was pension assets. Before that it was government advertising. Why are you still fighting with the Auditor General? This seems to be a pattern of behavior where you try and undermine her authority.

Our government has the utmost respect for all independent officers of the legislature, and we value the important perspective they bring.

- **Pension Asset Accounting**

11. Why are you still fighting with the Auditor General over pension accounting?

(Top Media Question - updated September 5, 2017)

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

12. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

EY provided additional analysis and concluded that no valuation allowance was required for either plan, confirming the independent panel's recommendation.

13. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.

- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

14. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was \$221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to \$2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

- **IESO Accounting**

15. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

(Top Media Question - updated September 5, 2017)

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

16. What is the Auditor General's argument with these changes?

The Auditor General claims that the change to the IESO's accounting policy to recognize market account assets and liabilities is inappropriate, as these market accounts are not assets and liabilities of the Province.

However, the IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

17. Between IESO and the pension issue from last year it seems like you just make up new rules when you don't like what you hear from the Auditor General. How do you respond to that?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

In many cases the application of accounting standards requires professional judgment. The Province's professionally accredited accounting staff are highly qualified practitioners, with a high degree of expertise in their field. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

18. Will you strike an expert panel to study to IESO issue, like you did last year for pension accounting?

We have no plans to establish a panel at this time.

The changes made to the IESO accounting were accepted by the IESO's audit committee, board of directors, and their independent external auditor. These changes were outlined in the IESO's 2016 annual report, which was published in March 2017. The Office of the Provincial Controller supports these changes.

19. Your reasons for change are yet again at odds with the Auditor General. Why should we believe you, when she is an independent officer of the legislature?

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.

• **Ontario's Fair Hydro Plan Accounting (Other Matters)**

20. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

First, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

Having said that, we respectfully disagree with the Auditor General's claim that the government withheld information from her or her office.

In March, the Ministry of Energy provided the Auditor General's Office with Cabinet documents from February and March related to Ontario's Fair Hydro Plan. These documents together provided a comprehensive overview of all elements of the plan that were known at that time, including accounting memos from both the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG).

On April 19, 2017, senior ministry officials from Treasury Board Secretariat, Finance and Energy met with the Auditor General and her staff to provide a briefing on Ontario's Fair Hydro Plan.

Since that April 19 briefing, ministry officials from Treasury Board Secretariat have met with the Auditor General several times.

21. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

(Top Media Question - updated September 5, 2017)

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

22. Why did you set up Ontario's Fair Hydro Plan accounting in this way?

Again, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

However, in order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

All of the agreements necessary for the Global Adjustment (GA) Refinancing are not yet complete. The final accounting for the GA Refinancing will be completed once all of the elements are complete.

In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the province's consolidated financial statements in 2017-18 and forward, the province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.

The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.

Any further questions about Ontario's Fair Hydro Plan should be directed to my colleague the Minister of Energy.

Ontario's Fiscal Position

- **Balanced Budget**

23. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?

(Top Media Question - updated September 5, 2017)

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province -- in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

24. How were you able to beat your deficit target in 2016-17?

(Top Media Question - updated September 5, 2017)

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

25. You beat your deficit targets again. Aren't you just padding your estimates so you can beat them at the end of the day?

No. 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.

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.

- **Debt**

26. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

(Top Media Question - updated September 5, 2017)

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by

2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

27. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

(Top Media Question - updated September 6, 2017)

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

28. The government is paying an enormous amount of money just paying the interest on its debt. How are you addressing this?

Interest on debt expense was \$11.7 billion, which was \$0.7 billion below the plan of \$12.4 billion, due mainly to lower-than-forecast interest rates, lower-than-forecast deficit and cost-effective borrowing and debt management.

While interest costs have grown in absolute terms, they have steadily fallen as a percentage of Ontario's revenues since 2013-14. The interest on debt-to-revenue ratio is now at its lowest level from the peak of 15.5 per cent in 1999-2000.

Interest on debt-to-revenue is forecast to have been 8.4 per cent for 2016-17. This ratio is the lowest it has been in 25 years. It is forecast to decline to 8.2 per cent in 2017-18.

We incurred increases to Ontario's debt during the recession for two reasons: to finance deficits and invest in capital assets. However we are making progress on our economic plan by making investments to spur growth, and are managing spending responsibly.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

Our fiscal plan is working. Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most.

29. You are spending more on interest payments for the debt than what you spend on post-secondary education. In fact, the payments equal more than 20 per cent of the health budget. How can you justify this?

Our priority following the 2008-09 recession was to achieve balance. In the first

few years after the recession, the increase in net debt was primarily due to the deficit.

Approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for the balance.

With balanced budgets, from 2017-18 onwards, the increase in net debt will be exclusively from investments in capital assets. In addition, the government is investing in public infrastructure which is vital to growing the economy and ensuring a high quality of life, whether people live in large, small, urban, northern or rural Ontario communities. Every \$1 spent on public infrastructure can increase GDP by up to \$6 in the long term. The balanced budget is giving the government the fiscal flexibility to do more to help people and spur economic growth.

o **Financial Accountability Office of Ontario**

30. The Financial Accountability Office (FAO) just released a commentary saying your balanced budget is in question because it's based on optimistic revenue forecasts. Will you decrease spending or increase taxes to make up for this potential shortfall?

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017- Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

The government builds prudence into its economic forecast. Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

31. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

(Top Media Question - updated September 6, 2017)

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP.

The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

o **The Fraser Institute**

32. How do you respond to the August 3, 2017 Fraser Institute report that criticizes the Province's plan to reduce the debt burden as "wishful thinking"?

The rate of increase of the Province's net debt is anticipated to be below that of its GDP, due to a combination of balanced budgets and appropriate levels of capital investments. These investments also contribute to the Province's GDP growth as affirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending.

In later years, the rate of increase in net debt is expected to be lower than that of GDP due a combination of balanced budgets and investments in capital assets that will contribute to GDP growth, allowing the government to realize its net debt to GDP target of 27 per cent by 2029-30.

o **Most Indebted Subsovereign, Future Generations**

33. This government has a spending problem and Ontario is now the most indebted sub-sovereign borrower in the world. Why should we trust your plan?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most. This year and last,

Ontario's debt-to-GDP ratio has improved from 39.6 per cent in the 2016 budget, to a forecasted 37.8 per cent in 2016-17, and it continues to track downward.

Our plan is also helping to grow the economy, with the largest investment in public infrastructure in the Province's history — more than \$190 billion over 13 years starting in 2014-15. New schools, hospitals and transit projects are improving quality of life and creating jobs in communities across Ontario.

Supporting ongoing economic growth is a top priority and we are encouraged by the influx of many innovative and dynamic businesses that are investing across the Province, bringing good jobs, higher wages and greater prosperity to our communities. We will continue to implement our balanced plan to build a healthy and sustainable economy for all of Ontario.

34. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan and your failure to address the Province's growing debt. How do you respond?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade the government has rebuilt our electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$50 billion has been invested to modernize the system.

We have heard from people across the Province that the price of electricity has risen too quickly, which is why our plan will ensure costs are shared more fairly over the years ahead.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

With respect to debt, we remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

- **Revenue**

35. How much money did you bring in in 2016-17?

Provincial revenues increased by \$4.6 billion, or 3.4 per cent over the previous year. This increase was due in part to nominal GDP growth of 4.6 per cent in 2016, which contributed to higher taxation revenues. There were also higher transfers from the federal government – including the Canada Health Transfer, Canada Social Transfer and funding for infrastructure projects.

Taxation revenues were \$2.5 billion, or 2.8 per cent higher-than-projected in the 2016 budget. Corporate tax revenues were \$2.8 billion higher. This was due to stronger-than-expected revenues from tax returns. Sales tax revenues were \$0.8 billion higher, due to Ontario's larger share of the HST, and the strong housing market contributed \$0.7 billion more in land transfer tax revenues.

Transfers from the Government of Canada were \$0.6 billion lower than the 2016 Budget forecast. This was mainly due to lower-than-expected funding for infrastructure projects and other payments for government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

Fees, donations and other revenues from broader public sector organizations were \$0.6 billion higher than the budget forecast, mainly due to higher-than-expected revenues from non-provincial sources for hospitals, and higher international tuition fees.

- o **Asset Sales**

36. One-time asset sales are a way to bring in money, but isn't this burning the furniture to heat the house when it comes to a long-term revenue strategy?

We are committed to dedicate net revenue gains from the sale of designated assets to the Trillium Trust, which is helping to fund transit, transportation and other key infrastructure projects across Ontario.

The government has already credited the Trillium Trust with \$1.35 billion from the sale of Ontario's shares in General Motors along with \$3.96 billion from the sale of Hydro One shares and the sale of the LCBO head office lands. In addition, the sale of the government's interest in Hydro One Brampton Networks Inc. resulted in a gain on sale recognized in 2016-17 of \$109 million. The government has committed to crediting the net proceeds from the sale of Hydro One Brampton to the Trillium Trust.

See section: Trillium Trust for more information.

o Transfers from the Federal Government

37. Transfers from the federal government were lower than expected. Aren't you banking on another entity to get your fiscal house in order?

The Government of Ontario, like all Provinces in Canada, receives funding from the federal government. These transfers are done on an ongoing basis to help provide programs and services.

Transfers from the Government of Canada were lower than the 2016 Budget forecast by \$0.6 billion. This was mainly due to lower-than-expected funding for infrastructure projects and other federal payments including transfers to government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

o Revenue from International Tuition Fees

38. International tuition fees helped the Province's bottom line but isn't this on the backs of young people who want to learn here?

Ontario is focused on attracting top talent from around the world that will enhance student learning, increase economic viability, and support growth of a highly skilled workforce.

International education enriches the academic, social and cultural life of our colleges and universities, from classrooms to research laboratories, and creates stronger ties between Ontario and other global jurisdictions.

Ontario welcomes the talent and energy that international students bring to the province. Many international students are future Canadians, who choose to stay and build on their experiences and education here in Ontario.

Over the past five years, international student enrolment in Ontario grew by 87% overall, 70% in public universities and 118% in public colleges.

In 2016-17, there were 98,685 full-time international students from more than 175 countries studying at publicly-assisted institutions in Ontario. This represented a 16% growth over the last academic year.

The province is developing a comprehensive and sustainable international strategy that builds on the strengths of our postsecondary system, reinforces our reputation for quality, and makes Ontario a welcoming destination and partner of choice.

For further questions, I direct you to contact my colleague at the Ministry of Advanced Education and Skills Development.

- **Program Spending**

39. Program spending increased again this year. Why?

(Top Media Question - updated September 5, 2017)

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;

- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

40. You finally balanced the budget and now you're spending more on expensive election promises like free pharmacare for children and youth 24 and younger. Why aren't you paying down debt instead?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Providing more access to vital services isn't just an investment in our future. It's the right thing to do.

• **Credit Rating**

41. Does a qualified opinion impact the Province's credit rating?

(Top Media Question - updated September 5, 2017)

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

42. What do you say to the credit rating agencies that have highlighted provincial debt as an area of credit weakness?

As recently presented in the 2017-18 First Quarter Finances, we continue to project a balanced budget in 2017-18, unchanged from the 2017 Budget.

With stronger-than-expected first quarter economic growth and the government's responsible approach to fiscal management, we can continue to invest in programs and services that help people across the Province.

Ontario's economy continues to grow at a steady pace despite an uncertain global environment. Most key economic indicators show that growth continues in the second quarter. Our plan is working.

We remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

43. What is your credit rating as it stands today?

Following the release of the 2017 Budget, all four rating agencies have confirmed Ontario's long-term credit ratings. This reflects rating agencies' confidence in our government's plan to grow Ontario's economy and create jobs for Ontarians.

If pressed:

Ontario's ratings are:

	<u>Long-Term</u>	<u>Short-Term</u>
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

o C.D. Howe Institute

44. Why does the C.D. Howe Institute weigh in on the government's fiscal situation?

The C.D. Howe Institute is an independent not-for-profit research institute that supports economically sound public policies. It is widely considered to be Canada's most influential think tank and is a trusted source of essential policy intelligence, distinguished by research that is nonpartisan, evidence-based and subject to definitive expert review.

Each year the C.D. Howe Institute produces a report on its assessment of the fiscal planning and reporting practices of senior Canadian governments. The institute observes that financial reports are a vital tool for understanding

governments' plans and activities.

We consider reports like the C.D. Howe's Fiscal Accountability of Canada's Senior Governments important because they are written by independent experts. Studies such as this are essential for governments to continuously assess and improve their financial planning and reporting.

Trillium Trust

45. What is the Trillium Trust?

The Trillium Trust provides for the dedication of prescribed net revenue gains from the sale of designated assets to support key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014 requires that all expenditures made under the act to support infrastructure investments are to be reflected in the Public Accounts.

Designated assets include the Province's shares of Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.

The Trillium Trust was drawn down by about \$260 million in 2016-17. We expect the Trillium Trust to be drawn down by about \$400 million in 2017-18.

The Ministry of Finance shows spending out of the Trillium Trust, with amounts to ministries delivering projects that have received support from the trust reflected in this year's Public Accounts. These figures are included in Volume 1 of Public Accounts.

The funding will help support initiatives, such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

46. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

(Top Media Question - updated September 5, 2017)

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

47. How much is currently in the trust?

The balance of the Trillium Trust as of March 31, 2017, was \$5.05 billion.

This reflects an opening balance of \$1.35 billion; \$3.96 billion credited to the Trillium Trust in 2016–17 from the sale of Hydro One Limited shares and the sale of the LCBO head office lands; and \$0.26 billion in expenditures from the Trillium Trust in 2016–17 toward investments in infrastructure.

Like most large infrastructure investments, initial spending on 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 gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

48. If the Province raised about \$2 billion in the secondary offering of Hydro One shares in 2016, why was only \$538 million credited to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the \$1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target 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.

Digital Tools/Open Government

49. What is the government doing to be transparent in regards to Public Accounts?

As part of our commitment to openness and transparency, we are using data visualization tools to help Ontarians better understand the Province's finances.

This year's tools are available at Ontario.ca/publicaccounts and include:

- Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;
- Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and
- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five last year.

These tools help make the Province's finances easier to understand, access and use, and are part of Ontario's commitment to creating a more open and transparent government.

50. How does this help the average Ontarian?

The more information we can provide to Ontarians about where their tax money is going, the better. That is why the government is providing new digital tools online to help Ontarians better understand their government's finances.

For example, our downloadable data sets provide a more accessible view of the information in Public Accounts. Volume 2 itself is three parts and over 1,200 pages. Instead of having to review those 1,200 pages, now that same information is available in one downloadable and sortable table.

Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to creating a more open and transparent government.

51. What are Open Data sets?

The Ontario government is committed to leading the most open, transparent, and accountable government in the country. Public access to information and opening up government data supports this commitment. Ontario is the first province in Canada to adopt the International Open Data Charter.

The International Open Data Charter contains a set of six principles that will build on Ontario's open by default data policy to increase civic participation, openness and accountability.

Ontario Releases 2016-17 Public Accounts

Province Balancing the Budget This Year, Helping Families Get Ahead

September 7, 2017

NEWS

Today the province released the Public Accounts of Ontario, showing that Ontario's deficit for last year was \$991 million—\$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Budget.

This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.

Ontario is on track to balance the [budget](#) this year, in 2017-18, while making investments in the programs and services people and families rely on most.

Other highlights from this year's Public Accounts include:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of \$140.7 billion, up \$2.2 billion from the 2016 Budget projection
- Total spending of \$141.7 billion, down \$0.1 billion from the 2016 Budget projection
- Interest on debt of \$11.7 billion, down \$0.7 billion from the 2016 Budget projection

Once again, the government is providing new digital tools [online](#) to help people better understand their government's finances. Presenting the Public Accounts data in innovative visual formats, and releasing more data through Ontario's [Open Data Catalogue](#), is part of Ontario's commitment to [Open Government](#).

Responsibly managing the province's finances is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"For eight years in a row, we have beaten our annual deficit target. We will continue to build on our track record of responsible fiscal management by balancing the budget in 2017-18. At the end of the day, a balanced budget means more funding for the programs and services people and families rely on most."

— Liz Sandals, President of the Treasury Board

"Ontario is on track to balance the budget in 2017-18. We have once again exceeded our fiscal targets by reducing the deficit by \$3.3 billion lower than originally projected in the 2016 Budget. Thanks to the hard work of the people of Ontario, we are leading Canada in economic growth while investing in programs like free tuition and free pharmacare for children and youth. With a balanced 2017 Budget, we will continue to build a stronger, healthier Ontario."

— Charles Sousa, Minister of Finance

... /2

QUICK FACTS

- Ontario's annual deficit fell from a peak of \$19.3 billion in 2009-10 to \$991 million in 2016-17.
- Average annual growth of total government spending has been held to 2.3 per cent over the past five years.
- Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- The 2016-17 Public Accounts compare Ontario's actual financial performance to what was planned in the 2016 Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with independently established standards set out by the Public Sector Accounting Board. Ontario's Auditor General reviews the Public Accounts against these standards and provides an opinion on the province's adherence to them.
- The province's professional accounting staff and the Auditor General's Office use a different interpretation of public sector accounting standards for net pension assets and recognition of market accounts. The province continues to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

BACKGROUND INFORMATION

- Accounting Changes to Ontario's Financial Statements

ADDITIONAL RESOURCES

[Watch the "Public Accounts 101" video](#)

[Public Accounts of Ontario 2016-17](#)

[Understanding Ontario's Budget cycle](#)

[Read the 2016 Budget](#)

[Explore the more than 500 open data sets in the Open Data Catalogue](#)

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Accounting Changes to Ontario's Financial Statements

September 7, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing [this year's Public Accounts](#), Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's office engaged in discussions on the appropriate application of PSAB pension accounting standards for the province's two jointly sponsored pension plans. An independent Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver advice and recommendations to the province.

After careful study, [the independent panel members released their report](#). It concluded that the province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these net pension assets and the 2015-16 financial statements have been restated to include them.

Accounting for the Independent Electricity System Operator

The [Independent Electricity System Operator \(IESO\)](#), like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. For the 2016-17 reporting year, the IESO began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

PSAB standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority (OPA) merged with IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO has also adopted rate-regulated accounting for its year ending December 31, 2016. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent [annual report](#). These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This change is fiscally neutral and does not impact the province's annual deficit, net debt, or accumulated deficit. This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and OPG are reported using International Financial Reporting Standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

**President of the Treasury Board and Minister of Finance to Release
Ontario's 2016-17 Public Accounts**

September 6, 2017

Liz Sandals, President of the Treasury Board and Charles Sousa, Minister of Finance will make an announcement regarding Ontario's 2016-17 Public Accounts.

Prior to the announcement, a technical briefing will be held with officials from Treasury Board Secretariat and the Ministry of Finance. They will be joined by Uros Karadzic, former member of the province's Pension Asset Expert Advisory Panel.

Date: Thursday, September 7, 2017

Time: 1:00 p.m. Technical briefing
1:45 p.m. Ministers' media availability

Location: Huron Room
Macdonald Block
900 Bay St.
Toronto



2016-17 Public Accounts

Technical Briefing

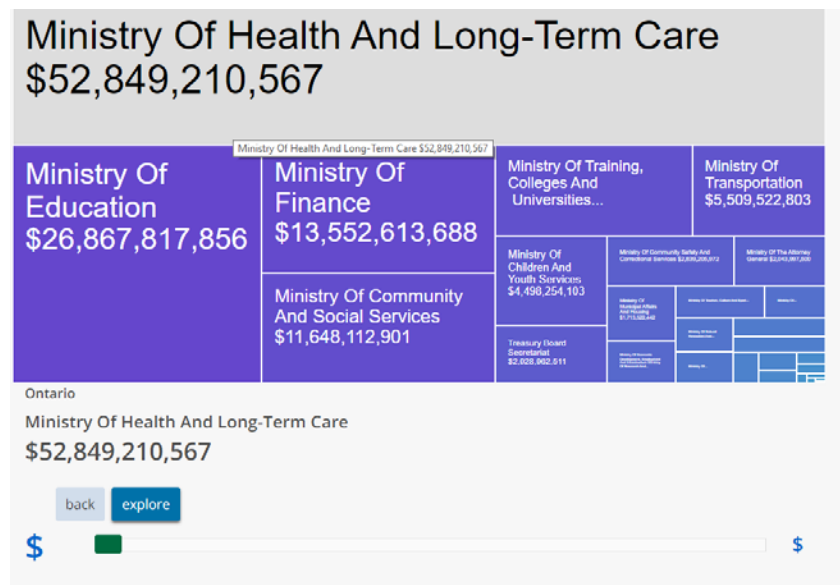
September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
 - Released six new downloadable data sets
 - Created new data visualizations tools
 - Published the web page under the Open Ontario Licence



2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is \$1 billion - \$3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
 - revenue was \$140.7 billion – \$2.2 billion more than expected in the 2016 Budget
 - expenses were \$141.7 billion – \$0.1 billion less than planned in the 2016 Budget
 - Some of the top spending areas included



\$56B Health



\$26.6B Education



\$12.9B Infrastructure

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **[Ontario.ca/publicaccounts](https://ontario.ca/publicaccounts)** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Summary 2016-17 Results

2016-17 Actual Results					
\$ Billions	2016-17 Budget ¹	2016-17 Actual	2015-16 Actual ^{1 2}	Change from Budget	% Change
Revenues	138.5	140.7	136.1	2.2	1.6%
Expenses	141.8	141.7	139.7	(0.1)	-0.1%
Reserve	1.0	-	-	(1.0)	
Annual Deficit	(4.3)	(1.0)	(3.5)	3.3	-76.7%
Net Debt		(301.6)	(295.4)		
Accumulated Deficit		(193.5)	(192.0)		

¹ 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

² 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- 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.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately \$8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a \$17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
 - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
 - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the “market accounts”.

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) 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.
 - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, 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.
- 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 consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
 - The report of the [Pension Asset Expert Advisory Panel](https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) (<https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
 - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
 - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report (“Deloitte Report”) on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario’s financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario’s accounting for the Ontario Teachers’ Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers’ Federation (OTF). Based on the Province’s application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province’s application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province’s financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province’s ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province’s accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province’s financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing
September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
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- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From: [McLean, David \(MOF\)](#)
To: [Gadi Mayman](#)
Cc: [Anna Strathy](#)
Subject: FW: tech briefing
Date: Thursday, September 07, 2017 10:32:05 AM
Attachments: [Public Accounts Technical Briefing 201617 Final.pptx](#)
[Pension Panel Slides 2016-17 PA Tech Briefing Final.pptx](#)

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
 - o Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
 - o IESO related changes (qualified on)
 - o Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca



2016-17 Public Accounts

Technical Briefing

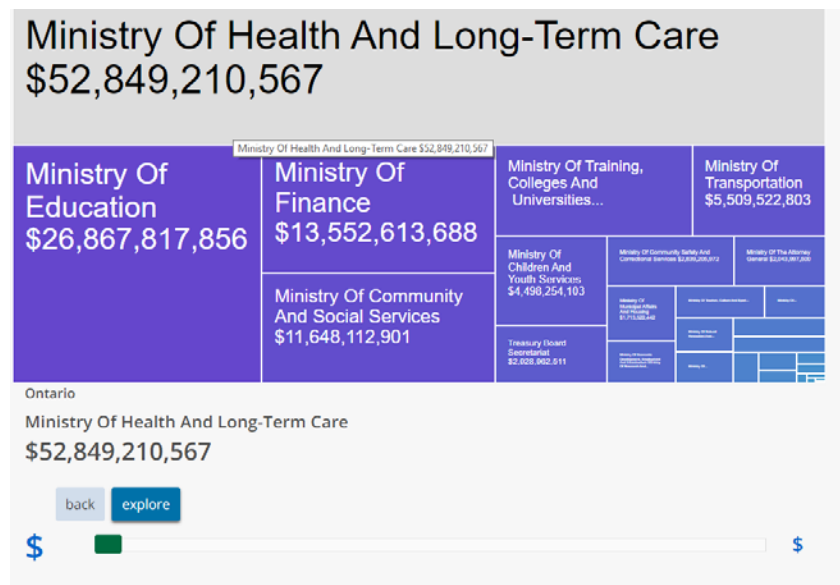
September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
 - Released six new downloadable data sets
 - Created new data visualizations tools
 - Published the web page under the Open Ontario Licence



2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is \$1 billion - \$3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
 - revenue was \$140.7 billion – \$2.2 billion more than expected in the 2016 Budget
 - expenses were \$141.7 billion – \$0.1 billion less than planned in the 2016 Budget
 - Some of the top spending areas included



\$56B Health



\$26.6B Education



\$12.9B Infrastructure

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **[Ontario.ca/publicaccounts](https://ontario.ca/publicaccounts)** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Summary 2016-17 Results

2016-17 Actual Results					
\$ Billions	2016-17 Budget ¹	2016-17 Actual	2015-16 Actual ^{1 2}	Change from Budget	% Change
Revenues	138.5	140.7	136.1	2.2	1.6%
Expenses	141.8	141.7	139.7	(0.1)	-0.1%
Reserve	1.0	-	-	(1.0)	
Annual Deficit	(4.3)	(1.0)	(3.5)	3.3	-76.7%
Net Debt		(301.6)	(295.4)		
Accumulated Deficit		(193.5)	(192.0)		

¹ 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

² 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- 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.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately \$8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a \$17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
 - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
 - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the “market accounts”.

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) 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.
 - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, 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.
- 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 consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
 - The report of the [Pension Asset Expert Advisory Panel](https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) (<https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
 - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
 - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report (“Deloitte Report”) on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario’s financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario’s accounting for the Ontario Teachers’ Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers’ Federation (OTF). Based on the Province’s application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province’s application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province’s financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province’s ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province’s accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province’s financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing
September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

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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 Orenszak (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 Orenszak (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 pssp) 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

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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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Sent from my iPad

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>

> Ali Ghiassi

> Chief of Staff

> Minister of Finance

> 416.948.5409

>

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From: [Schuurman, Tim \(MOF\)](#)
To: [Brian Lewis \(MOL\)](#); [Ronald Kwan](#); [Gadi Mayman](#)
Cc: [Selena Esmail \(MOF\)](#)
Subject: Fw: SoC briefing accounting risks_Nov 15.pptx
Date: Tuesday, November 15, 2016 6:36:15 PM
Attachments: [SoC briefing accounting risks_Nov 15.pptx](#)

I'm not sure if any of you have seen this (maybe it was just me who didn't know this was being worked on).

This is an important piece of the fiscal path looking ahead and we should all know about these as they cut across the electricity finance, borrowing, debt and revenue components.

This was prepared for the SOC.

Tim

From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Tuesday, November 15, 2016 6:24 PM
To: Schuurman, Tim (MOF)
Cc: Esmail, Selena (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Tim,

Here is the deck from OPCD that was developed for the SoC.

Thanks,
Ryan

From: Laughton, Patrick (TBS)
Sent: November-15-16 4:31 PM
To: Birks, Ryan (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

From: Laughton, Patrick (TBS)
Sent: November-14-16 6:04 PM
To: Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Here's the deck.

From: Laughton, Patrick (TBS)
Sent: November-14-16 1:37 PM
To: Hughes, Karen (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Karen –

The attached deck has been updated following the meeting earlier with Cindy/Nadine.

Please let me know if you have comments. If you are ok I will send along to the DMO in advance of tomorrow's meeting with the SoC.

P.

From: Hosick, Sarah (TBS)
Sent: November-14-16 1:30 PM
To: Laughton, Patrick (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Patrick

Please see attached for the revised deck for the SoC briefing. Please let us know if Karen has any additional comments/edits.

Thanks
Sarah

From: Veinot, Cindy (TBS)
Sent: November-14-16 1:26 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS)
Subject: SoC briefing accounting risks_Nov 15.pptx

See attached -- Cindy



Office of the Provincial Controller

Financial Reporting Risks

November 15, 2016

Briefing to Secretary of Cabinet

Purpose



- To highlight immediate and longer-term fiscal/financial reporting issues
- Options and recommendations to address immediate high risk items
 - Pension Asset Accounting
 - OPG/H1 reporting

Background



- The Provincial Budget and Public Accounts will be impacted by new and future changes to public and private sector accounting standards as well as the resolution of disagreements with the Auditor General
- Potential risks:
 - Outcome of Pension Asset Expert Advisory Panel and AG acceptance of the Panel's recommendations
 - Consistency between results reported by OPG and H1 vs. Public Accounts
 - Various current year transactions (e.g. cap & trade, Metrolinx transaction with City of Toronto)
 - Future standard setting projects (e.g. financial instruments, rate-regulated accounting)
- As a sovereign government, the Province is not bound by PSAB. Legislation is in place to allow for a regulatory solution to mitigate risks (under FAA).
- The government regulated accounting for pension assets for the 2015/16 Public Accounts using a time-limited regulation (only for 2015-16).
- Under the AG Act, the audit opinion for the Public Accounts is based on the AG's judgment of 'appropriate GAAP'. The AG is opposed to legislated accounting.

Key Challenges



Near Term

1. Pension Asset Accounting
2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
3. Specific transactions (transfer payments similar to GIF, Metrolinx)
4. Cap and Trade accounting (accounting for proceeds from auction and expenses)
5. Expected reduction in AG materiality used for Public Accounts
6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
7. Increased AG focus on governance and accounting re: contaminated sites
8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
9. Implementation of Related Party disclosures – new accounting standard
10. Implementation of Hyperion Financial Management (parallel run)
11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)

Future:

1. Accounting for Financial Instruments – standard under review
2. PSAB -- new standards on asset retirement obligations, revenues, public-private partnerships
3. Finalization of PSAB Conceptual Framework
4. Timing and frequency of internal and external financial reporting
5. Basis for accounting for balanced budget legislation (budget and actuals)

Pension Assets – High Risk



- In preparing the 2015-16 Public Accounts, the Province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.
- A time-limited regulation was passed for the 2015-16 Public Accounts to reflect a full valuation allowance against the pension assets. The AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.
- A report from the Pension Asset Expert Advisory Panel, including recommendations on the interpretation of PSAS for the Province's defined benefit plans is expected to be delivered by the end of December.
- It is uncertain whether the Auditor General will accept the recommendations of the Panel.
- Work plan underway – see Appendix A

Accounting for GBEs – High Risk



Government Business Enterprises (GBEs)

▪ **OLG and LCBO --**

- OLG and LCBO have been consolidated on International Financial Reporting standards (IFRS) since 2011/12
- Results may be impacted by future changes to IFRS standards
- No issues raised by AG

▪ **OPG and Hydro One –**

- Private sector accounting standards for rate regulated entities changed effective January 1, 2015. PSAB requires that GBEs follow IFRS.
- OPG and Hydro One are consolidated using US GAAP in the Province's consolidated financial statements which is the same basis that they report to securities regulators and the Ontario Energy Board.
- The AG treats the difference between IFRS and US GAAP based results for OPG and Hydro One as errors on her Schedule of Unadjusted Differences (SUDs) listing. The largest impact relates to the discount rate on the nuclear asset retirement obligation. This difference is expected to be material in fiscal 2016-17.

Risks Related to GBE Reporting (H1&OPG)

Risks of adopting IFRS for H1&OPG consolidation in the CFS:

1. Lack of transparency between stand-alone statements and results consolidated with the Province
2. Volatility under IFRS-based reporting for H1&OPG, especially due to the discount rate for OPG's Asset Retirement Obligation in fiscal 2016-17
 - Potential future changes in IFRS standards and US GAAP standards may cause further divergence from audited US GAAP-based reports issued by H1&OPG
3. Future of rate-regulated accounting under IFRS
 - IFRS currently has an interim standard on rate-regulated accounting and has a project underway evaluating whether a permanent standard supporting rate-regulated accounting will be issued
 - If H1&OPG were consolidated on an IFRS basis and rate regulated accounting was subsequently discontinued, more than \$8 Billion of regulatory assets on the books of H1 & OPG would have to be analyzed to determine what amount would continue to be recorded (write-off would increase Province's Net Debt); additional volatility would be introduced into the Province's annual surplus/deficit.

Options to Mitigate GBE Risks



1) Adopt IFRS for consolidation of OPG/H1

- OPG/H1 results would be based on IFRS for Public Accounts. A material impact can be expected in 2016/17 when the ONFA plan is updated (due to a change in the discount rate associated with the asset retirement liability).
- Differences in results reported by OPG/H1 (US GAAP) and the Province (IFRS) may be material.
- Additional time, cost and effort would be involved in preparing and auditing a second set of IFRS based budgets and financial reports for Budget & Public Accounts purposes.
- Risk continues regarding potential elimination of rate regulated accounting under IFRS

2) Work to support the use of US GAAP with AG until the IFRS decision on rate-regulated accounting is complete

- IASB (International Accounting Standards Board), expects to issue a discussion paper on this project in calendar 2017. Given the widespread use of rate regulated accounting in Canada, the AcSB may determine the need for a Canadian solution. It would be inefficient to move to IFRS now and reconsider that move in the future.

3) Regulate Consistent Accounting for GBEs (see Appendix A re: proposed work plan)

- Regulate Province's accounting for GBEs on modified equity basis of consolidation using the same GAAP as used by the entity itself (IFRS/US GAAP), with adjustments to confirm to the Province's accounting for unrealized gains/losses, and effective date for in-year changes to accounting policies for GBEs with different year-ends.
- Regulation should be retroactively effective as at April 1, 2016 which was the first day that OPG and Hydro One were reported on a US GAAP basis in the Province's books. (for 2016/17)
- No time-restriction, but may be reconsidered by the government at any time in the future.
- Other considerations: Potential change to the AG Act, timing

DRAFT Implementation Plan (Pensions)



Step

Actions

**November
December
2016**

1. Initiate Panel and support deliberations
Members announced November 10. Materials compiled, including position paper.
2. Engage external writer
Exemption from procurement policy to be approved
3. Run additional analysis/models as required
External actuary engaged
4. Complete analysis for additional plans
TBS with assistance from external advisors
5. Receive final report and summary
Share final report with AG and solicit agreement. Prepare summary document for public release.

**January
2017**

6. Confirm accounting policy direction and valuation for Budget and Public Accounts
TBS & MOF
7. Draft communications products and briefing materials for Report from Panel
OPCD with TBS Communications (and MOF Comms)

Feb 2017

8. Support impact analysis for Budget Document/Spring Bill
OPCD (TBS) to work with TBS, MOF on possible changes
9. Obtain AG acceptance of accounting
OPCD (TBS) to work with AG on concurrence

**Spring
2017**

10. Any necessary changes to O.Reg. 395/11 or the Audit General Act could be reflected in Budget document or Spring Bill (TBD)
TBS & MOF Legal

DRAFT Implementation Plan (GBE Acctg)



	Step	Actions
November December 2016	1. Internal Briefings re: risks and potential solutions (acctg. reg)	Brief TBS, MOF, OEFC, MOE
	2. Confirm policy direction	Confirm policy direction (through TB)
	3. Consider draft of acctg. regulation	Review status of AcSB activities
	4. Consider review of AG Act	TBS & MOF Legal (use same process as for changes to AG Act w.r.t. H1 IPO)
January 2017	5. Draft communications products and briefing materials for Document	OPCD with TBS & MOF Comms
	6. Accounting Regulation to be considered for Budget Bill or Spring Bill	OPCD
	7. Consider implications of changes to Auditor General Act and Comms products for Budget Document/Spring Bill	OPCD (TBS) to work with TBS, MOF, MAG on possible changes and implications
Spring 2017	8. Potential changes to Audit General Act could be reflected in Budget document or Spring Bill (TBD)	TBS & MOF Legal



IFRS vs. US GAAP Impacts (OPG/H1)

	US GAAP	IFRS
Asset Retirement Obligations (Bruce Power portion buffered by rate reg)	- Constant discount rate, except for incremental changes (smoothing for prescribed facilities) - Lifecycle costs capitalized and smoothed over remaining asset life - Matches cost of service definition for regulatory purposes	- Strict IFRS would require annual update to discount rate (volatility) - Lifecycle costs treated as variable (used fuel bundles)
Decommissioning Costs	Similar to CGAAP	Greater impact in years of decommissioning when variables costs will hit P&L (e.g. Pickering 2020)
Rate Regulated Accounting	- No plans to remove rate regulated accounting - US GAAP consistent with basis up on which OPG and H1 report, and are regulated (cost of service)	- IFRS14 is only a temporary standard - Uncertainty remains regarding potential introduction of rate regulated accounting under IFRS - If RRA g is removed, then RRA/RRL would be removed from OPG/H1 results and volatility introduced in annual surplus/deficit - Costs recoverable through rates would be reported as costs to be covered by taxpayers
Pension / OPEB Accounting	No significant difference	Less ability to smooth past service costs (volatility risk for future plan amendments)
Capitalization of Indirect Overhead	Allows for capitalization of indirect overhead,.	Indirect overhead cannot be capitalized. If rate regulated accounting is not permanently introduced into IFRS, volatility will be introduced into CFS. (approx. 300M/year)
Lease Accounting	Standard changing but maintaining the concept of operating versus capital leases	Moving to a single approach to recognize all leases on the balance sheet (as capital), which would result in recognition of liability and amortization
Revenue Accounting	US standard largely converged with IFRS	Similar to US GAAP (Converged)



AG Mandate Summary

ON	(3) In the annual report in respect of each fiscal year, the Auditor General shall express his or her opinion as to whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles and the Auditor General shall set out any reservations he or she may have. 2004, c. 17, s. 14 (8).
BC	11 (1) The Auditor General must report each year, in accordance with generally accepted auditing and assurance standards, to the Legislative Assembly on the financial statements of the government reporting entity. (2) The report under subsection (1) must state whether these financial statements are presented fairly in accordance with generally accepted accounting principles. (3) The auditor in accordance with section 10 (3) must report each year on the financial statements of the government organizations and of the trust funds, in accordance with generally accepted auditing and assurance standards, to (a) the boards of management of the government organizations and the trustees of the trust funds to which the appointment is made, and (b) the minister responsible.
AB	(2) A report of the Auditor General under subsection (1) shall (a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles.
SK	11. (3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.
MB	9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.
NB	[.10]The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.

AG Mandate Summary

NS	Auditor General Act	19 (1) The Auditor General shall audit the annual consolidated financial statements of the Government that are included in the public accounts required under the Finance Act. (2) The Auditor General shall submit a report to the House of Assembly, which must be included in the public accounts and which must provide an opinion, prepared in accordance with generally accepted auditing standards, as to the fair presentation of the consolidated financial statements. 2010, c. 33, s. 19.
NL	Auditor General Act	[.11] The auditor general shall examine the several financial statements required by the Financial Administration Act to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.
GOC	Auditor General Act	6. The Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
QC	Auditor General Act	38. In his report on the annual financial statements of the Government, the Auditor General (1) shall indicate whether, in his opinion, these statements present fairly the financial position of the Government, the results of its operations and the changes in its financial position in accordance with the accounting principles or policies stated in the financial statements and whether these principles or policies have been applied on a basis consistent with that of the preceding fiscal year;

Draft Regulation (GBE Accounting)

- Ontario Regulation 395/11 is amended by adding the following section:
- **Clarity on the accounting policies and practices to be followed to prepare the consolidated financial statements of the Province**
 - 3. (1) The modified equity basis of consolidation required by Public Sector Accounting Standard PS 1300.35 (Government reporting entity), issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as issued in June 1996 shall be the basis for consolidating government business enterprises and government business partnerships.
 - (2) For purposes of preparing the Province's consolidated financial reports, the basis of **GAAP** used by government business enterprises (GBE) in preparing their entity-level financial statements, including any regulated requirements, will be applied in conjunction with the basis of consolidation in section 3(1) above.
 - (3) Where a GBE's financial reporting year-end differs from the Province's reporting period ending March 31st, the Province's consolidated financial reports will reflect the GBE's accounting policies in place as at April 1st of the Province's reporting period.
- *As long as Hydro One, OPG, LCBO and OLG are controlled by the province they will be consolidated on the modified equity basis (no reference to GBEs).



PSAB Standards Specific Items

■ Financial Instruments

(Financial Instruments and Foreign Currency Translation)

- The effective date for PSAB's new standard has been deferred to April 1, 2019
- The new standard, as currently written, would introduce fair value accounting into government financial reporting. The volatility could not be budgeted for, resulting in variances from plan.
- The new standard would impact the province's annual surplus/deficit results due to the elimination of hedge accounting, and also impact the province's net debt position due to reflection of unrealized gains and losses..
- A new financial statement, the Statement of Remeasurement Gains and Losses would be introduced to reflect unrealized gains and losses.
- PSAB has initiated a review of their current standard and has met with the OFA and OPCD.
- There is no certainty that PSAB will introduce hedge accounting which would address most stakeholder concerns with the new standard. Hedge accounting is also commonly reflected in FI standards around the world.
- In addition, uncertainty remains regarding the ability to retain the province's current accounting treatment for ONFA under the new standard. Once the new standard is known, OFA and OPCD will consult with the AG regarding interpretation and impact on ONFA reporting.

PSAB Standards Specific Items



Related Party Transactions

- PSAB's final standard will impact disclosures starting with the 2017/18 Public Accounts.
- The main requirements of the standard relate to government transactions with private sector entities where key government management and political personnel, or close family members are related to a private sector entity or their key management or owners.

Revenue Standard

- PSAB has a project underway to revisit revenue recognition standards.
- The new Exposure Draft is expected to be released in the third quarter of 2016

Assets Standard

- PSAB has issued revised standards that will require additional disclosures.

PSAB Standards Specific Items | TBS

Asset Retirement Obligations

- PSAB is expected to issue an Exposure Draft on Asset Retirement Obligations in the near future

PSAB Conceptual Framework Task Force

- PSAB is working through a revised conceptual framework – could have implications on presentation and disclosure; unlikely to have any impact on deficit or surplus

Employee Future Benefits

- PSAB has initiated a project to review how pension plans are reported by the public sector.
- ON is hopeful that PSAB may be able to include certain issues with PS 3250 which are resulting in disagreements on interpretation and application between the Auditor General and TBS.

Other - Specific Items

Tax Revenue Accrual Methodology

- OEP, OPCD and the OAG continue to monitor and assess potential enhancements to the current methodology used to accrue tax revenues for Public Accounts purposes.

Expectation for Quarterly External Reports

- Implementation of CHIRP will allow for consideration of in-year external reporting. Quarterly reporting already a feature for many other senior Canadian governments.

Potential for Earlier Release Date for Public Accounts

- Implementation of CHIRP, supplemented by modified reporting requirements by ministries and consolidated orgs and change in OAG's audit approach will increase feasibility of earlier release.
- During the 2016/17 Public Accounts, OPCD will be undertaking a parallel run using the new Hyperion Financial Management system.

From: [Gadi Mayman](#)
To: [Ken Kandeepan](#)
Cc: [Christina Zhang](#)
Subject: Fwd: Accounting risks
Date: Friday, December 09, 2016 10:04:32 AM
Attachments: [SOC briefing accounting risks Dec 8 pm.pptx](#)
[ATT00001.htm](#)

This is the deck for the meeting with Steve that I'm joining Scott for at 10:45.

Begin forwarded message:

From: "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>
Date: December 9, 2016 at 9:47:58 AM EST
To: "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>
Subject: FW: Accounting risks

Gadi – attached is the accounting risks deck for this morning's meeting with the SoC. I'm printing a copy for you.

From: McLean, David (MOF)
Sent: December 9, 2016 9:46 AM
To: Pearce, Christopher (MOF)
Subject: FW: Accounting risks

From: MacIntyre, Kyle (TBS)
Sent: December 9, 2016 9:06 AM
To: Bromm, William (CAB); Foster, Robert (CAB)
Cc: McLean, David (MOF); Simone, Nicole (TBS)
Subject: Accounting risks

Here's the deck for this morning's conversation.



Office of the Provincial Controller

Financial Reporting Risks

December 9, 2016

Briefing to Secretary of Cabinet

DRAFT

Purpose



- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues
- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary



	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	\$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	\$1 Billion	No	Yes
3	Cap & trade proceeds	\$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto (similar model for other transit projects)	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

1. Net Pension Assets

Risk:	High High profile issue; material forward-looking impact and/or volatility depending on nature and timing of co-sponsor agreements; relationship risk with co-sponsors and AG; audit risk if AG does not accept outcome inconsistent with her interpretation
Impact in 2016-17 (billions):	\$ 2.2
Multi-year impact:	Yes -- \$2.8B in 2017-18, \$3.7B in 2018-19, and \$3.9B in 2019-20
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status/next steps:	- Expert panel has met twice - current focus on OTPP and OPSEUPP; - meeting scheduled with AG on Dec. 16; - Chair will be ready to brief OPCD/TBS/MOF/MO in early Jan 2017 and finalize report on OTPP/OPSEUPP by Jan 31, 2017. - HOOPP and CAATPP will be addressed in a supplement after January 31, 2017
Options under consideration:	a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation)
Timing of expected resolution:	- Panel report back – January 9, 2017 - Panel report (OTPP/OPSEUPP) – January 31, 2017 - Asset valuations – February 15, 2017 (target) - Agreement with OTB (if required) – TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	- EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) - Health & MAESD not currently engaged (not sponsors of HOOPP or CAATPP)

2. IFRS-US GAAP differences – OPG and H1

Risk:	High Audit risk (qualification for 2016/17 based on AG approach); lack of certainty w.r.t future IFRS standards for rate regulated accounting; transparency, accountability and VFM implications of 2 sets of books; AG Act implications of legislated accounting option
Impact in 2016-17 (billions):	\$ 1.0 (based on AG's approach)
Multi-year impact:	Yes -- \$100M in 2017-18, \$ 100M in 2018-19, and \$ 100M in 2019-20 (all based on AG's approach) Impact based on OPG's preferred approach -- \$375M in 2016-17; \$400M in 2017/18; \$500M in 2018/19, \$700M in 19/20
Impact included in FES:	No
Description of issue:	PSAB requires consolidation of OPG and H1 on an IFRS basis, whereas the Public Accounts reflects consolidation on a US GAAP basis, consistent with OPG and H1 external reporting as allowed by Securities Regulators and OEB
Current status/next steps	- Significant differences have historically been with OPG – working with OPG to refine estimates and assess ability to use OPG's preferred approach without a receiving a qualified opinion from AG; - Assessing whether it would be useful to approach PSAB again (response to OPS in 2016 connected any change to IFRS project on rate-regulated accounting, which is not scheduled for completion for several years)
Options under consideration:	(a) Continue to report OPG and H1 on a US GAAP basis in the CFS (legislate accounting; will result in qualified opinion unless AG Act also changed) (b) Approach PSAB for additional consideration; (c) Report OPG and H1 on an IFRS basis in the CFS (entities could continue to produce US GAAP financial statements for stand-alone financial statements) (d) Report OPG on IFRS and H1 on a US GAAP basis – historically significant differences have been in OPG; would leave publicly traded company (H1) with requirement to keep one set of books for now
Timing of expected resolution:	2017 Budget -Legislative changes could be considered as part of Spring Bill -Consider changes to basis of reporting for OPG/H1 to be reflected in Budget
Province's ability to influence:	Province is not able to influence PSAB or AG; If Province decides to consolidate OPG using IFRS, impact in year is estimated to be \$375 million vs. \$1 B
Role of other ministries:	Energy aware of ongoing considerations and stakeholding with OPG and H1 OEFC involvement as necessary where potential impacts on f/s or audit opinion

3. Cap & Trade Proceeds

Risk:	High Timing of first auction in March 2017 results in settlement process straddling the year-end complicating timing of revenue recognition. Accounting model for new revenue stream requires consultation with OAG.
Impact in 2016-17 (billions):	\$0.5
Multi-year impact:	No (although it is likely that if auction proceeds from March 22, 2016 auction are recognized in fiscal 2017-18, proceeds from 5 auctions will be recognized in fiscal 2017-18 as the last auction is 2017-18 is scheduled for February 2018 and the auction settlement process is expected to be complete by March 31, 2018)
Impact included in FES:	Risk not identified in the FES
Description of issue:	Assumptions regarding timing of revenue recognition for 2016 Budget in question. Based on preliminary accounting analysis, revenue likely to be recognized once emission allowances have been transferred to participant accounts. For the March 22, 2016 auction, this would mean that the related revenue is recognized in fiscal 2017-18.
Current status/next steps	- OPCD working through comments on accounting analysis received from MOECC. - Accounting analysis to be shared with OAG in December to obtain preliminary feedback/concurrence for 2017 Budget.
Options under consideration:	- Unlikely that settlement process can be completed by March 31, 2017. - MOECC is providing additional information re: consideration of whether revenue recognition would be appropriate at auction certification date which occurs prior to the emission allowances being credited to the participant accounts (Auction certification date currently estimated as March 29, 2017)
Timing of expected resolution:	Mid-January/17 for feedback from OAG
Province's ability to influence:	If MOECC is able to move up the Auction date such that settlement process is complete by March 31, 2017, revenue would be recognized in 2016-17, subject to review by OAG.
Role of other ministries:	MOECC a key stakeholder and has provided background on C&T design, risks and rewards to the Province. Analysis has been provided to MOECC and MOECC has provided feedback. MOECC working through providing additional evidence supporting auction certification date as revenue recognition date for March 22, 2017 auction.

4. Metrolinx MOU with City of Toronto

(Note – model is being used for other transit projects as well)



Risk:	High Material potential impact on fiscal plan reflecting transaction with City as well as impact for future transactions for Mississauga and Hamilton assets (Hurontario LRT, Hamilton LRT)
Impact in 2016-17 (billions):	\$ TBD
Multi-year impact:	Yes (amounts TBD)
Impact included in FES:	No
Description of issue:	MOU contemplates the City taking responsibility for operations and maintenance of certain transit and also retaining the transit revenue. The Province will retain lifecycle risk. It must be determined whether the Province maintains control of the transit assets (and therefore capitalizes and amortizes the assets over their useful lives) or whether the Province has substantively transferred the assets to the City of Toronto (which would be accounted for as a transfer and accelerate the recognition of the expense as compared to the capitalize and amortize model)
Current status/next steps	MOU between the Province and the City, including reference to funding for City from transit revenues. Follow-on agreement between Province and City under development – will be binding. Approval from TB requires agreement between Province and City to support Province having control of asset under PSAB. Working group being formed between Metrolinx, MTO, CPD and OPCD to manage review agreements and develop steps to manage risk.. Metrolinx engagement with their external auditor to determine level of assurance they can provide in current year based on current status of agreement.
Options under consideration:	N/A – given binding agreement is not yet signed and this deal will be a model for other agreements, agreement will be negotiated to support control of the assets by the Province.
Timing of expected resolution:	February 2017
Province's ability to influence:	Province can influence the economic substance of the arrangement signed with the City in order to support the continued control of the underlying transit assets by the Province.
Role of other ministries:	MTO, CPD engaged in discussions with MX on aspects of MOU and to ensure consistent understanding of anticipated accounting

5. Year-end transfers



Risk:	Low/Med Audit risk (amounts expensed are reversed during audit if there are disagreements on relevant criteria), any amounts reversed will create fiscal pressure for fiscal 2017-18
Impact in 2016-17 (billions):	\$ TBD
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Evolving view of AG regarding aspects of government year-end commitments and characteristics required to enable liability and expense recognition in advance of signed formal TP agreement.
Current status/next steps:	OPCD engaging with OAG to discuss experience and lessons learned in advance of 2017 Budget Process. OPCD has communicated change and risk to financial community (CAOs, Financial Directors).
Options under consideration:	Developing advice to ministries to mitigate risk: 1. Signed TP agreements in place by year-end 2. Flow funds by year-end Open discussion with OPCD and OAG to derive new guidance to be shared with Ministries.
Timing of expected resolution:	January 30, 2017
Province's ability to influence:	Province can work with OAG to understand views on year-end transfers and communicate guidance to Ministries. Discussions have commenced with OIAD to assess their ability to assist in Ministry reviews.
Role of other ministries:	MOECC, MEDG, others depending on year end transfers.

6. Changes to consolidation

Risk:	Low
Impact in 2016-17 (billions):	N/A
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	AG recommendation that CASSs. Individual universities under assessment. AG recommendation that BPS be consolidated in the statement of operations on a line-by-line basis. Currently balance sheet consolidation is line-by-line, but income statement is consolidated using one line.
Current status/next steps	Additional analysis required on impact if CASSs were consolidated – ministry does not have processes in place to consolidate. No bottom line impact of line by line BPS consolidation, but revenues and expenses to change by amount of 3 rd party revenue (impact on key performance indicators – interest/revenue dollar and expenses/person). Analysis of appropriate period to effect change under development.
Options under consideration:	Under consideration for the 2017 Budget and 2017-18 Public Accounts: - Consolidation of CASSs - Consolidation of BPS sector (grossed up Rev/Exp) No options for individual universities or DAAs until further review completed. Change in funding model for universities (including student grant program) to be considered.
Timing of expected resolution:	January/February 2017
Province's ability to influence:	Provincial discretion as to whether to consolidate BPS as requested by the AG (presentation issue, no fiscal impact). Consolidation of individually controlled universities, CASSs, DAAs which meet threshold tests required under PSAB (immaterial to SUDs, therefore no anticipated impact on audit opinion).
Role of other ministries:	MOF (OFA) to be involved to manage communications risks regarding consolidation MCSYS to provide details on CASSs Sector Ministeries to provide details for Hospitals, school boards and colleges as well as Q&A input TBS Coms for Q&A (ALL) PEMD to provide details on DAAs.

7. Follow up audit – contaminated sites



Risk:	Med-High Changes to estimates will impact in year deficit (audit risk associated with computation), as well as results of AG VFM follow up audit which will to be reported in 2017 AG Annual Report. Financial management/accounting policy not complete – risk of inconsistencies across ministries.
Impact in 2016-17 (billions):	No specific properties identified
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Expecting follow-up by AG on audit of implementation of contaminated sites accounting standard. Any increases/decreases in liability will impact 2016/17 deficit directly.
Current status/next steps	Draft financial management/accounting policy under development – currently circulated for review by ministries. OPCD working with OIAD re: terms for reference for OIAD follow up (to be completed to provide assurance on year-end balances) OPCD communicating with OAG on planned review of contaminated sites.
Options under consideration:	Line and sector ministry readiness for AG review. OPCD policy guidance (format, timing, stakeholdering)
Timing of expected resolution:	March – April 2017
Province's ability to influence:	Province can influence audit risk by finalizing financial management/accounting policy (goal of finalizing by March 31, 2017) and by OIAD completing their review prior to Public Accounts and AG follow up review.
Role of other ministries:	MOECC input and direction to ministries in line with OAG audit findings from 2015. CPD role in supporting ministry estimates of ongoing costs. All ministries with contaminated sites will need to ensure their current year estimates are complete.

8. Other GBE issues (H1 sale; unrealized gains/losses, H1 deferred tax and OEB decision)

Risk:	Med Despite low anticipated \$ amount of adjustments, commentary by AG in Annual Report for Audit Findings Report for any unadjusted differences could have reputational risk and also inadvertently impact Hydro One. Impact on amounts reported in Trillium Trust and AG commentary thereon also at risk.
Impact in 2016-17 (billions):	TBD
Multi-year impact:	Yes
Impact included in FES:	Yes for some
Description of issue:	OPCD to engage with OAG on appropriate accounting and estimated errors (for SUDs). OEB Deliberations on benefit of Deferred Tax Asset (Province vs. Rate Payer)
Current status:	• Draft accounting for H1 sale (tranche 2) to be reviewed by external firm including related party sale to OPG (already provided). • Accounting for unrealized gains/losses to be discussed with OAG. • OEFC to provide update on risks associated with potential OEB decision on benefit of deferred tax asset.
Options under consideration:	• Determine accounting for unrealized gains/losses in year based on materiality of estimated amounts in 2016-17. • Pending decision of OEB, ensure deferred tax benefit appropriately reflected on Province's books and Trillium Trust account.
Timing of expected resolution:	February, 2017 (decisions on eliminations/adjustments to be reflected in Budget)
Province's ability to influence:	Depending on materiality, some adjustments will be at discretion of the government (vs. SUDS impact)
Role of other ministries:	Ministry of Energy and OFA. Involved in discussion as well as OPG.

Risks:

9. Reduced materiality by AG

Risk:	High Risk that accumulated errors will exceed lower materiality threshold requiring Province to adjust financial statements.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	AG has communicated plans to reconsider (reduce) audit materiality in light of release of unaudited results for 2015/16, and path to balance. Reducing materiality would generally lead to increased audit testing and a lower threshold for reporting errors. A reduced materiality will also result in an overall lower threshold for accumulated errors.
Current status/next steps	OPCD communicating increased AG scrutiny to Ministries in updates to CAO Forum, FCC, FBMC. OPCD evaluating updated process for accumulating errors from Ministries vs. waiting for communication from AG.
Options under consideration:	N/A
Timing of expected resolution:	Materiality has historically be communicated by AG in Audit Planning Memo – draft expected in January 2017.
Province's ability to influence:	None
Role of other ministries:	All ministries will be subject to additional scrutiny.

10. Earlier Release of Public Accounts

Risk:	Medium
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Potentially earlier release date (end of July/17)
Current status:	Assessment underway on key tasks/milestones to deliver by end of July
Options under consideration:	1. Deliver Annual Report and Volumes by end of July 2. Deliver Annual Report only by end of July, to be followed by Volumes in August/September. 3. Impact on Data visualization and open data 4. Process enhancements – in OPCD as well as OAG (needed to complete audit in time to support earlier release, especially in regards to tax estimation.)
Timing of expected resolution:	Mid-January 2017
Province's ability to influence:	Province determines date of release subject to legislative requirements and on AG's ability to complete her audit.
Role of other ministries:	All ministries will be impacted by an earlier release date.

11. Implementation of Hyperion Financial Management

Risk:	Medium Audit risks to be minimized by relying on legacy systems for 2016/17 Public Accounts. Resource requirements of APFR staff will be high during planned parallel run in addition to earlier planned release for the Public Accounts. Unanticipated audit issues as experienced in 2016 will cause further stress on resources required for the parallel run as well as Public Accounts related processes.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Implementation of Corporate Hyperion Information Reporting Portal in parallel with early release of Public Accounts.
Current status:	CHIRP related considerations integral to discussions on early release date.
Options under consideration:	N/A
Timing of expected resolution:	N/A
Province's ability to influence:	N/A
Role of other ministries:	OAG to audit controls during 2016/17 public accounts audit. Line and sector ministries to learn how to bet use new system.

12. Implementation of New Standards

Risk:	Medium/Low No fiscal impact associated with new standards; however, various stakeholders will have to be involved to ensure completeness and integrity of information required for disclosure. Process will be subject to review by the OAG.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	New standards on related parties and contractual rights to be implemented in 2017/18 requiring planning to ensure that appropriate data available for disclosure.
Current status:	OPCD engagement with OAG on-going to ensure key questions discussed and implementation guidance robust.
Options under consideration:	N/A
Timing of expected resolution:	February, 2017
Province's ability to influence:	Unique to each Province, depending on relative interpretations of PSAB.
Role of other ministries:	TBS – OIAD LSB – restrictions on disclosure for RPT and contractual rights.

From: [Gadi Mayman](#)
To: [Ken Kandeepan](#)
Cc: [Christina Zhang](#)
Subject: Fwd: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
Date: Friday, January 06, 2017 9:25:39 PM
Attachments: [Final - Deputy Minister Pension Asset Update.pptx](#)
[ATT00001.htm](#)

If I read the deck correctly, it looks like the panel will agree with the Province's interpretation, not the AG's?

Begin forwarded message:

From: "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
Date: January 6, 2017 at 5:48:49 PM EST
To: "Mendes, Elizabeth (MOF)" <Elizabeth.Mendes@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tiburcio, Daniel (MOF)" <Daniel.Tiburcio@ontario.ca>
Subject: FW: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hi all,

Attached is the deck for the Chair of the Asset Panel briefing on Monday.

Gwen Young

p: 416.325.0741 | bb: 647.982.2419

From: Nelson, Dane (TBS)
Sent: January 6, 2017 5:41 PM
To: Young, Gwendolynne (MOF); MacIntyre, Kyle (TBS); Loughton, Patrick (TBS)
Subject: RE: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hi Gwen,

Please find the deck attached for your review.

Regards,

Dane Nelson, Senior Policy Advisor

Treasury Board Secretariat | Deputy Minister's Office

Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

From: Young, Gwendolynne (MOF)
Sent: January-06-17 5:39 PM

To: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS)
Subject: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hey there – are there materials in advance for this briefing, or will they be walked in?

Thanks,
Gwen.

Gwen Young

Senior Policy Advisor

Deputy Minister's Office | Ministry of Finance

p: 416.325.0741 | bb: 647.982.2419

Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued
- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan
- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit
 - Each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements
- Recognizing the asset will provide a faithful representation of the Province's financial position
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in planboth on a present value basis

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
 - Distinguish requirements for surplus withdrawals from contribution reductions
 - Specifically discuss control requirements in JDBPs
- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable
- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
 - whether the method used to settle an obligation should affect how that obligation is measured, and
 - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).
- January 16th – Completion of final report and Executive Summary for the OPSEUPP and OTPP.
- January 23rd – Draft supplemental report, on HOOPP and CAATPP, submitted to the Panel by the report writer for comments.
- February 3rd – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office
- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Paul Martin (accountant) – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
- The requirement regarding control with respect to recognizing a pension asset for other pension plans
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

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 Orenacsak (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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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

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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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<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: SoC briefing accounting risks_Nov 15.pptx
Date: Wednesday, November 16, 2016 12:09:28 AM
Attachments: [SoC briefing accounting risks_Nov 15.pptx](#)
[ATT00001.htm](#)

With the attachment.

Gadi

Begin forwarded message:

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
Date: November 15, 2016 at 6:36:01 PM EST
To: "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>
Cc: "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
Subject: Fw: SoC briefing accounting risks_Nov 15.pptx

I'm not sure if any of you have seen this (maybe it was just me who didn't know this was being worked on).

This is an important piece of the fiscal path looking ahead and we should all know about these as they cut across the electricity finance, borrowing, debt and revenue components.

This was prepared for the SOC.

Tim

From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Tuesday, November 15, 2016 6:24 PM
To: Schuurman, Tim (MOF)
Cc: Esmail, Selena (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Tim,

Here is the deck from OPCD that was developed for the SoC.

Thanks,
Ryan

From: Loughton, Patrick (TBS)

Sent: November-15-16 4:31 PM
To: Birks, Ryan (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

From: Laughton, Patrick (TBS)
Sent: November-14-16 6:04 PM
To: Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Here's the deck.

From: Laughton, Patrick (TBS)
Sent: November-14-16 1:37 PM
To: Hughes, Karen (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Karen –

The attached deck has been updated following the meeting earlier with Cindy/Nadine.

Please let me know if you have comments. If you are ok I will send along to the DMO in advance of tomorrow's meeting with the SoC.

P.

From: Hosick, Sarah (TBS)
Sent: November-14-16 1:30 PM
To: Laughton, Patrick (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Patrick

Please see attached for the revised deck for the SoC briefing. Please let us know if Karen has any additional comments/edits.

Thanks
Sarah

From: Veinot, Cindy (TBS)
Sent: November-14-16 1:26 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS)
Subject: SoC briefing accounting risks_Nov 15.pptx

See attached -- Cindy



Office of the Provincial Controller

Financial Reporting Risks

November 15, 2016

Briefing to Secretary of Cabinet

Purpose



- To highlight immediate and longer-term fiscal/financial reporting issues
- Options and recommendations to address immediate high risk items
 - Pension Asset Accounting
 - OPG/H1 reporting

Background



- The Provincial Budget and Public Accounts will be impacted by new and future changes to public and private sector accounting standards as well as the resolution of disagreements with the Auditor General
- Potential risks:
 - Outcome of Pension Asset Expert Advisory Panel and AG acceptance of the Panel's recommendations
 - Consistency between results reported by OPG and H1 vs. Public Accounts
 - Various current year transactions (e.g. cap & trade, Metrolinx transaction with City of Toronto)
 - Future standard setting projects (e.g. financial instruments, rate-regulated accounting)
- As a sovereign government, the Province is not bound by PSAB. Legislation is in place to allow for a regulatory solution to mitigate risks (under FAA).
- The government regulated accounting for pension assets for the 2015/16 Public Accounts using a time-limited regulation (only for 2015-16).
- Under the AG Act, the audit opinion for the Public Accounts is based on the AG's judgment of 'appropriate GAAP'. The AG is opposed to legislated accounting.

Key Challenges



Near Term

1. Pension Asset Accounting
2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
3. Specific transactions (transfer payments similar to GIF, Metrolinx)
4. Cap and Trade accounting (accounting for proceeds from auction and expenses)
5. Expected reduction in AG materiality used for Public Accounts
6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
7. Increased AG focus on governance and accounting re: contaminated sites
8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
9. Implementation of Related Party disclosures – new accounting standard
10. Implementation of Hyperion Financial Management (parallel run)
11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)

Future:

1. Accounting for Financial Instruments – standard under review
2. PSAB -- new standards on asset retirement obligations, revenues, public-private partnerships
3. Finalization of PSAB Conceptual Framework
4. Timing and frequency of internal and external financial reporting
5. Basis for accounting for balanced budget legislation (budget and actuals)

Pension Assets – High Risk



- In preparing the 2015-16 Public Accounts, the Province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.
- A time-limited regulation was passed for the 2015-16 Public Accounts to reflect a full valuation allowance against the pension assets. The AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.
- A report from the Pension Asset Expert Advisory Panel, including recommendations on the interpretation of PSAS for the Province's defined benefit plans is expected to be delivered by the end of December.
- It is uncertain whether the Auditor General will accept the recommendations of the Panel.
- Work plan underway – see Appendix A

Accounting for GBEs – High Risk



Government Business Enterprises (GBEs)

▪ **OLG and LCBO --**

- OLG and LCBO have been consolidated on International Financial Reporting standards (IFRS) since 2011/12
- Results may be impacted by future changes to IFRS standards
- No issues raised by AG

▪ **OPG and Hydro One –**

- Private sector accounting standards for rate regulated entities changed effective January 1, 2015. PSAB requires that GBEs follow IFRS.
- OPG and Hydro One are consolidated using US GAAP in the Province's consolidated financial statements which is the same basis that they report to securities regulators and the Ontario Energy Board.
- The AG treats the difference between IFRS and US GAAP based results for OPG and Hydro One as errors on her Schedule of Unadjusted Differences (SUDs) listing. The largest impact relates to the discount rate on the nuclear asset retirement obligation. This difference is expected to be material in fiscal 2016-17.

Risks Related to GBE Reporting (H1&OPG)

Risks of adopting IFRS for H1&OPG consolidation in the CFS:

1. Lack of transparency between stand-alone statements and results consolidated with the Province
2. Volatility under IFRS-based reporting for H1&OPG, especially due to the discount rate for OPG's Asset Retirement Obligation in fiscal 2016-17
 - Potential future changes in IFRS standards and US GAAP standards may cause further divergence from audited US GAAP-based reports issued by H1&OPG
3. Future of rate-regulated accounting under IFRS
 - IFRS currently has an interim standard on rate-regulated accounting and has a project underway evaluating whether a permanent standard supporting rate-regulated accounting will be issued
 - If H1&OPG were consolidated on an IFRS basis and rate regulated accounting was subsequently discontinued, more than \$8 Billion of regulatory assets on the books of H1 & OPG would have to be analyzed to determine what amount would continue to be recorded (write-off would increase Province's Net Debt); additional volatility would be introduced into the Province's annual surplus/deficit.

Options to Mitigate GBE Risks



1) Adopt IFRS for consolidation of OPG/H1

- OPG/H1 results would be based on IFRS for Public Accounts. A material impact can be expected in 2016/17 when the ONFA plan is updated (due to a change in the discount rate associated with the asset retirement liability).
- Differences in results reported by OPG/H1 (US GAAP) and the Province (IFRS) may be material.
- Additional time, cost and effort would be involved in preparing and auditing a second set of IFRS based budgets and financial reports for Budget & Public Accounts purposes.
- Risk continues regarding potential elimination of rate regulated accounting under IFRS

2) Work to support the use of US GAAP with AG until the IFRS decision on rate-regulated accounting is complete

- IASB (International Accounting Standards Board), expects to issue a discussion paper on this project in calendar 2017. Given the widespread use of rate regulated accounting in Canada, the AcSB may determine the need for a Canadian solution. It would be inefficient to move to IFRS now and reconsider that move in the future.

3) Regulate Consistent Accounting for GBEs (see Appendix A re: proposed work plan)

- Regulate Province's accounting for GBEs on modified equity basis of consolidation using the same GAAP as used by the entity itself (IFRS/US GAAP), with adjustments to confirm to the Province's accounting for unrealized gains/losses, and effective date for in-year changes to accounting policies for GBEs with different year-ends.
- Regulation should be retroactively effective as at April 1, 2016 which was the first day that OPG and Hydro One were reported on a US GAAP basis in the Province's books. (for 2016/17)
- No time-restriction, but may be reconsidered by the government at any time in the future.
- Other considerations: Potential change to the AG Act, timing

DRAFT Implementation Plan (Pensions)



	Step	Actions
November December 2016	1. Initiate Panel and support deliberations	Members announced November 10. Materials compiled, including position paper.
	2. Engage external writer	Exemption from procurement policy to be approved
	3. Run additional analysis/models as required	External actuary engaged
	4. Complete analysis for additional plans	TBS with assistance from external advisors
	5. Receive final report and summary	Share final report with AG and solicit agreement. Prepare summary document for public release.
January 2017	6. Confirm accounting policy direction and valuation for Budget and Public Accounts	TBS & MOF
	7. Draft communications products and briefing materials for Report from Panel	OPCD with TBS Communications (and MOF Comms)
Feb 2017	8. Support impact analysis for Budget Document/Spring Bill	OPCD (TBS) to work with TBS, MOF on possible changes
	9. Obtain AG acceptance of accounting	OPCD (TBS) to work with AG on concurrence
Spring 2017	10. Any necessary changes to O.Reg. 395/11 or the Audit General Act could be reflected in Budget document or Spring Bill (TBD)	TBS & MOF Legal

DRAFT Implementation Plan (GBE Acctg)



	Step	Actions
November December 2016	1. Internal Briefings re: risks and potential solutions (acctg. reg)	Brief TBS, MOF, OEFC, MOE
	2. Confirm policy direction	Confirm policy direction (through TB)
	3. Consider draft of acctg. regulation	Review status of AcSB activities
	4. Consider review of AG Act	TBS & MOF Legal (use same process as for changes to AG Act w.r.t. H1 IPO)
January 2017	5. Draft communications products and briefing materials for Document	OPCD with TBS & MOF Comms
	6. Accounting Regulation to be considered for Budget Bill or Spring Bill	OPCD
	7. Consider implications of changes to Auditor General Act and Comms products for Budget Document/Spring Bill	OPCD (TBS) to work with TBS, MOF, MAG on possible changes and implications
Spring 2017	8. Potential changes to Audit General Act could be reflected in Budget document or Spring Bill (TBD)	TBS & MOF Legal



IFRS vs. US GAAP Impacts (OPG/H1)

	US GAAP	IFRS
Asset Retirement Obligations (Bruce Power portion buffered by rate reg)	- Constant discount rate, except for incremental changes (smoothing for prescribed facilities) - Lifecycle costs capitalized and smoothed over remaining asset life - Matches cost of service definition for regulatory purposes	- Strict IFRS would require annual update to discount rate (volatility) - Lifecycle costs treated as variable (used fuel bundles)
Decommissioning Costs	Similar to CGAAP	Greater impact in years of decommissioning when variables costs will hit P&L (e.g. Pickering 2020)
Rate Regulated Accounting	- No plans to remove rate regulated accounting - US GAAP consistent with basis up on which OPG and H1 report, and are regulated (cost of service)	- IFRS14 is only a temporary standard - Uncertainty remains regarding potential introduction of rate regulated accounting under IFRS - If RRA g is removed, then RRA/RRL would be removed from OPG/H1 results and volatility introduced in annual surplus/deficit - Costs recoverable through rates would be reported as costs to be covered by taxpayers
Pension / OPEB Accounting	No significant difference	Less ability to smooth past service costs (volatility risk for future plan amendments)
Capitalization of Indirect Overhead	Allows for capitalization of indirect overhead,.	Indirect overhead cannot be capitalized. If rate regulated accounting is not permanently introduced into IFRS, volatility will be introduced into CFS. (approx. 300M/year)
Lease Accounting	Standard changing but maintaining the concept of operating versus capital leases	Moving to a single approach to recognize all leases on the balance sheet (as capital), which would result in recognition of liability and amortization
Revenue Accounting	US standard largely converged with IFRS	Similar to US GAAP (Converged)



AG Mandate Summary

ON	(3) In the annual report in respect of each fiscal year, the Auditor General shall express his or her opinion as to whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles and the Auditor General shall set out any reservations he or she may have. 2004, c. 17, s. 14 (8).
BC	11 (1) The Auditor General must report each year, in accordance with generally accepted auditing and assurance standards, to the Legislative Assembly on the financial statements of the government reporting entity. (2) The report under subsection (1) must state whether these financial statements are presented fairly in accordance with generally accepted accounting principles. (3) The auditor in accordance with section 10 (3) must report each year on the financial statements of the government organizations and of the trust funds, in accordance with generally accepted auditing and assurance standards, to (a) the boards of management of the government organizations and the trustees of the trust funds to which the appointment is made, and (b) the minister responsible.
AB	(2) A report of the Auditor General under subsection (1) shall (a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles.
SK	11. (3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.
MB	9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.
NB	[.10]The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.



AG Mandate Summary

NS	Auditor General Act	19 (1) The Auditor General shall audit the annual consolidated financial statements of the Government that are included in the public accounts required under the Finance Act. (2) The Auditor General shall submit a report to the House of Assembly, which must be included in the public accounts and which must provide an opinion, prepared in accordance with generally accepted auditing standards, as to the fair presentation of the consolidated financial statements . 2010, c. 33, s. 19.
NL	Auditor General Act	[.11] The auditor general shall examine the several financial statements required by the Financial Administration Act to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.
GOC	Auditor General Act	6. The Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
QC	Auditor General Act	38. In his report on the annual financial statements of the Government, the Auditor General (1) shall indicate whether, in his opinion, these statements present fairly the financial position of the Government, the results of its operations and the changes in its financial position in accordance with the accounting principles or policies stated in the financial statements and whether these principles or policies have been applied on a basis consistent with that of the preceding fiscal year;

Draft Regulation (GBE Accounting)

- Ontario Regulation 395/11 is amended by adding the following section:
- **Clarity on the accounting policies and practices to be followed to prepare the consolidated financial statements of the Province**
 - 3. (1) The modified equity basis of consolidation required by Public Sector Accounting Standard PS 1300.35 (Government reporting entity), issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as issued in June 1996 shall be the basis for consolidating government business enterprises and government business partnerships.
 - (2) For purposes of preparing the Province's consolidated financial reports, the basis of **GAAP** used by government business enterprises (GBE) in preparing their entity-level financial statements, including any regulated requirements, will be applied in conjunction with the basis of consolidation in section 3(1) above.
 - (3) Where a GBE's financial reporting year-end differs from the Province's reporting period ending March 31st, the Province's consolidated financial reports will reflect the GBE's accounting policies in place as at April 1st of the Province's reporting period.
- *As long as Hydro One, OPG, LCBO and OLG are controlled by the province they will be consolidated on the modified equity basis (no reference to GBEs).



PSAB Standards Specific Items

■ Financial Instruments

(Financial Instruments and Foreign Currency Translation)

- The effective date for PSAB's new standard has been deferred to April 1, 2019
- The new standard, as currently written, would introduce fair value accounting into government financial reporting. The volatility could not be budgeted for, resulting in variances from plan.
- The new standard would impact the province's annual surplus/deficit results due to the elimination of hedge accounting, and also impact the province's net debt position due to reflection of unrealized gains and losses..
- A new financial statement, the Statement of Remeasurement Gains and Losses would be introduced to reflect unrealized gains and losses.
- PSAB has initiated a review of their current standard and has met with the OFA and OPCD.
- There is no certainty that PSAB will introduce hedge accounting which would address most stakeholder concerns with the new standard. Hedge accounting is also commonly reflected in FI standards around the world.
- In addition, uncertainty remains regarding the ability to retain the province's current accounting treatment for ONFA under the new standard. Once the new standard is known, OFA and OPCD will consult with the AG regarding interpretation and impact on ONFA reporting.

PSAB Standards Specific Items



Related Party Transactions

- PSAB's final standard will impact disclosures starting with the 2017/18 Public Accounts.
- The main requirements of the standard relate to government transactions with private sector entities where key government management and political personnel, or close family members are related to a private sector entity or their key management or owners.

Revenue Standard

- PSAB has a project underway to revisit revenue recognition standards.
- The new Exposure Draft is expected to be released in the third quarter of 2016

Assets Standard

- PSAB has issued revised standards that will require additional disclosures.

PSAB Standards Specific Items | TBS

Asset Retirement Obligations

- PSAB is expected to issue an Exposure Draft on Asset Retirement Obligations in the near future

PSAB Conceptual Framework Task Force

- PSAB is working through a revised conceptual framework – could have implications on presentation and disclosure; unlikely to have any impact on deficit or surplus

Employee Future Benefits

- PSAB has initiated a project to review how pension plans are reported by the public sector.
- ON is hopeful that PSAB may be able to include certain issues with PS 3250 which are resulting in disagreements on interpretation and application between the Auditor General and TBS.



Other - Specific Items

Tax Revenue Accrual Methodology

- OEP, OPCD and the OAG continue to monitor and assess potential enhancements to the current methodology used to accrue tax revenues for Public Accounts purposes.

Expectation for Quarterly External Reports

- Implementation of CHIRP will allow for consideration of in-year external reporting. Quarterly reporting already a feature for many other senior Canadian governments.

Potential for Earlier Release Date for Public Accounts

- Implementation of CHIRP, supplemented by modified reporting requirements by ministries and consolidated orgs and change in OAG's audit approach will increase feasibility of earlier release.
- During the 2016/17 Public Accounts, OPCD will be undertaking a parallel run using the new Hyperion Financial Management system.

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](#)

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
416.325.1607 | greg.orencsak@ontario.ca<<mailto:greg.orencsak@ontario.ca>>
Treasury Board Secretariat
[Title: TBS logo]

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.



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.

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	<u>(8.5)</u>	<u>(5.0)</u>	<u>(10.3)</u>	<u>3.5</u>	-41.2%
Net Debt		(305.2)	(284.6)		
Accumulated Deficit		(202.7)	(187.5)		

*unaudited

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.

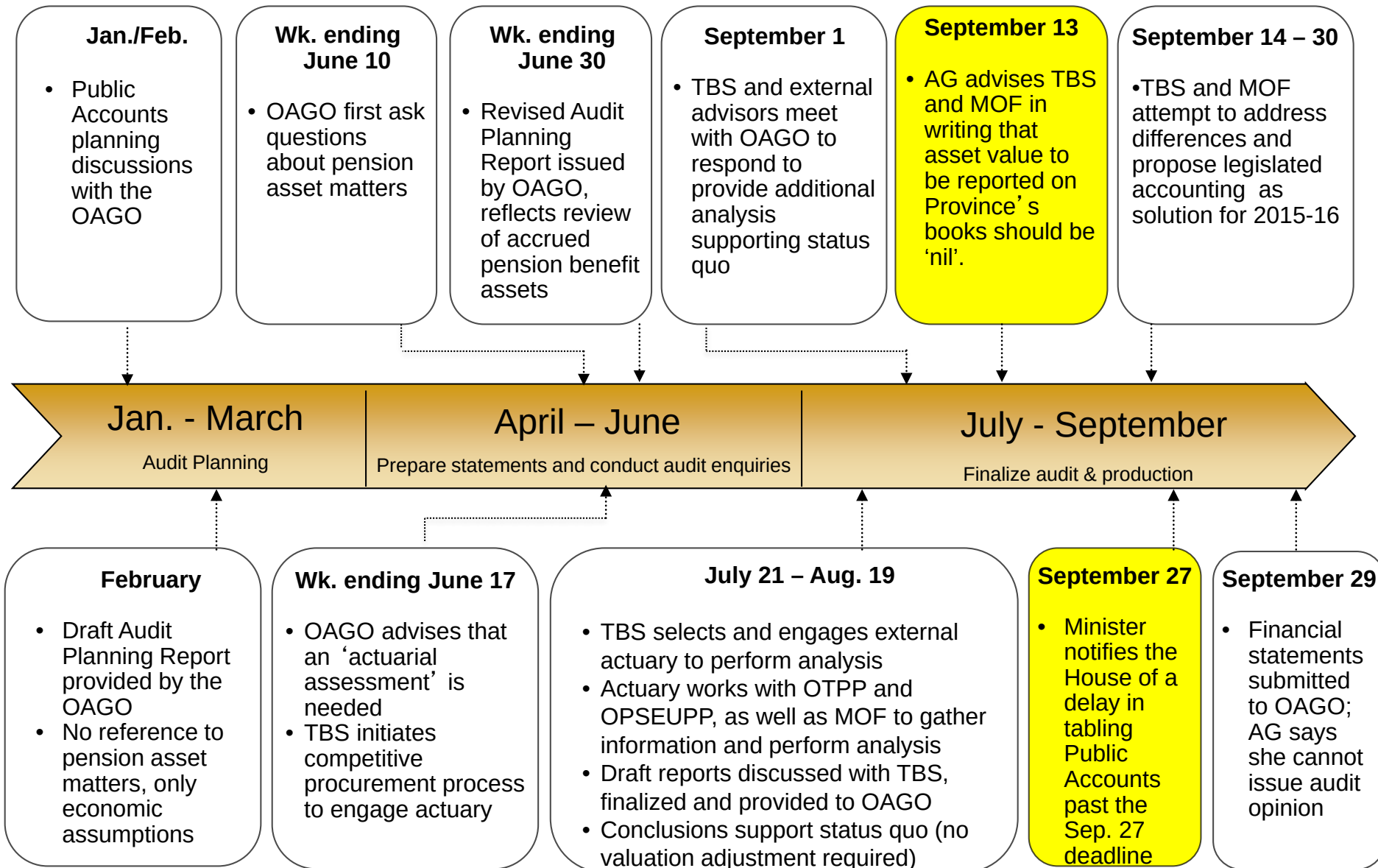
Auditor General's Position

- 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.

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.

Timeline



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.

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.

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)

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.

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: [Anna Strathy](#)
To: [Hresa Gavaris](#)
Cc: [Gadi Mayman](#)
Subject: Fwd: tech briefing
Date: Thursday, September 07, 2017 10:35:50 AM
Attachments: [Public Accounts Technical Briefing 201617_Final.pptx](#)
[ATT00001.htm](#)
[Pension Panel Slides_2016-17 PA Tech Briefing_Final.pptx](#)
[ATT00002.htm](#)

Hi Hresa,

Would you mind printing the attached for Gadi?

Password is Confederation17.

Anna

Sent from my iPhone

Begin forwarded message:

From: "McLean, David (MOF)" <David.McLean@ontario.ca>
Date: September 7, 2017 at 10:31:51 AM EDT
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Bofoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

<!--[if !supportLists]--> <!--[endif]-->Pls use: Confederation17
<!--[if !supportLists]--> <!--[endif]-->Helen/Scott open up with context
<!--[if !supportLists]--> <!--[endif]-->Cindy to speak to:
 <!--[if !supportLists]-->O <!--[endif]-->Preparation of the financial
 statements and key changes to these public accounts (including those
 we agree with the AG on)
 <!--[if !supportLists]-->O <!--[endif]-->IESO related changes (qualified on)
 <!--[if !supportLists]-->O <!--[endif]-->Pension asset related accounting

(qualified on)

<!--[if !supportLists]--> <!--[endif]--> Turn over to Uros to summarise former
panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is
supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

<!--[if !supportLists]--> <!--[endif]--> In the Nipigon room.
<!--[if !supportLists]--> <!--[endif]--> Starts at 1:00
<!--[if !supportLists]--> <!--[endif]--> Media Avail w two ministers: starts at 1:45,
is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca



2016-17 Public Accounts

Technical Briefing

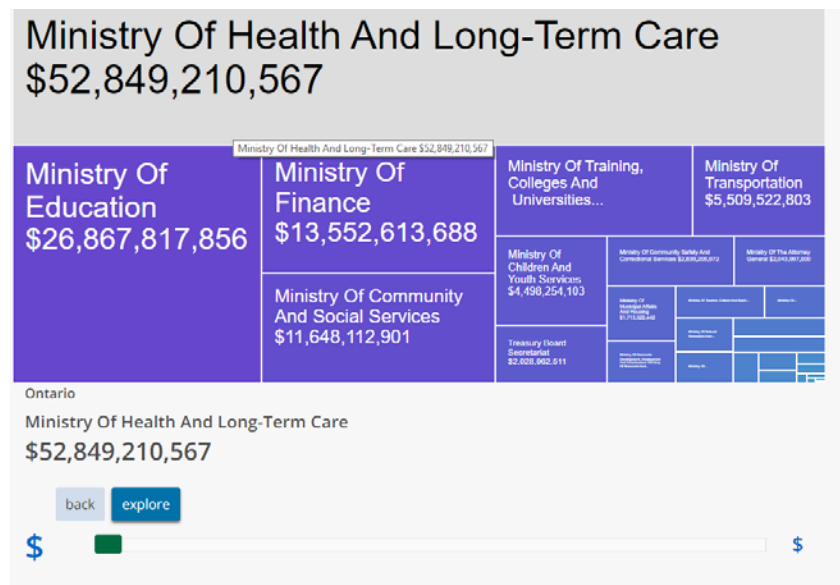
September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
 - Released six new downloadable data sets
 - Created new data visualizations tools
 - Published the web page under the Open Ontario Licence



2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is \$1 billion - \$3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
 - revenue was \$140.7 billion – \$2.2 billion more than expected in the 2016 Budget
 - expenses were \$141.7 billion – \$0.1 billion less than planned in the 2016 Budget
 - Some of the top spending areas included



\$56B Health



\$26.6B Education



\$12.9B Infrastructure

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **[Ontario.ca/publicaccounts](https://ontario.ca/publicaccounts)** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Summary 2016-17 Results

2016-17 Actual Results					
\$ Billions	2016-17 Budget ¹	2016-17 Actual	2015-16 Actual ^{1 2}	Change from Budget	% Change
Revenues	138.5	140.7	136.1	2.2	1.6%
Expenses	141.8	141.7	139.7	(0.1)	-0.1%
Reserve	1.0	-	-	(1.0)	
Annual Deficit	<u>(4.3)</u>	<u>(1.0)</u>	<u>(3.5)</u>	<u>3.3</u>	-76.7%
Net Debt		(301.6)	(295.4)		
Accumulated Deficit		(193.5)	(192.0)		

¹ 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

² 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- 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.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
 - a) Classification of third-party revenues for hospitals, colleges and school boards
 - b) Accounting basis for Ontario Power Generation and Hydro One
 - c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
 - d) Accounting for net pension assets of jointly sponsored pension plans

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately \$8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a \$17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
 - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
 - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) 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.
 - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, 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.
- 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 consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
 - The report of the [Pension Asset Expert Advisory Panel](https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) (<https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
 - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
 - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report (“Deloitte Report”) on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario’s financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario’s accounting for the Ontario Teachers’ Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers’ Federation (OTF). Based on the Province’s application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province’s application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province’s financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province’s ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province’s accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province’s financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing
September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From: Marijana.Corluka@ontario.ca on behalf of [Orsini, Steve \(CAB\)](#)
To: [Veinot, Cindy \(TBS\)](#); [Karen Hughes \(MGS\)](#); [Scott Thompson \(CAB\)](#); [Gadi Mayman](#); [Len Hatzis \(MGS\)](#); [Sean Kearney \(MGS\)](#); [William Bromm \(CAB\)](#); [Helen Angus \(MOHLTC\)](#)
Cc: [Ken Kandeepan](#)
Subject: MATERIAL: Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman
Attachments: [Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx](#)



Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
 - Number of members
 - Members
 - Chair (and role of chair in decision making)
- Support for panel
 - Report writer
 - Project management
 - Legal support
- Using the results of the report from the Panel
- Other

Composition of Panel



3 Person Panel

(all have confirmed interest)

Accounting expert – **Bill Matthews**
(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

Governance expert – **Murray Gold**
(Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair

(interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer



- Report writer – requirements:
 - Knowledge of pension accounting and actuarial modelling
 - Writing skills
- Considerations
 - PwC – lead by Lucy Durocher
 - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
 - Knowledgeable on plans and issues
 - Member of PSAB Task Force
 - Panel hires independent consultant
 - OPS will complete pre-work for procurement of another firm

Support for panel – project management



- Short timeline – Report due by December 31, 2016
- Role
 - Coordination and scheduling
 - Liaison with Province
 - Interim reports
 - Coordination with TBS communications re: final report
 - Administrative reporting
- Potential candidates
 - Process in place to identify senior manager/director from OIAD, supported by others as necessary

Support for panel – legal support



- Existing opinions
 - MAG
 - Oslers
 - Koskie Minsky – Ontario vs. BC
- Additional work required
 - Comparison of Ontario plans to New Brunswick Target Benefit Plans
 - Understanding of governance structures for HOOPP and CAATTPP
 - Multi-employer plans vs jointly sponsored plans

Using the result of the report from the panel



- Provision of report to Auditor General
 - Any other contact with AG during the process
 - Panel may invite AG to discuss issue
 - Panel may request written document of AG's position
- Communications strategy
 - Commitment to make the report public
- Use of Deloitte summary if made available
 - May align or conflict with report of panel

Other



- Valuation opinion
 - Only OTPP? Expected increase in value of OPSEU asset – less than \$250 million
 - Start as soon as panel completes its work – procurement timing
- Responding to AG's 2016 Report -- Chapter 2
 - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work
- Meeting with PSAB Task Force on employee future benefits -- timing

APPENDIX – POTENTIAL PANEL MEMBERS -- BIOS

Potential panel members



Name	Accounting Expertise	Actuarial Expertise	JSPG Governance Expertise	Interest confirmed
Bill Matthews (Comptroller General – Canada)	Yes			Yes
Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			No
Sheila Fraser (former Federal Auditor General)	Yes			No
David Smith (former PwC Chairman)	Yes			No
Wayne Strelloff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No

Bill Mathews – Comptroller General of Canada, PSAB Board Member



Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force



Uros Karadzic is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

M&A transaction and integration, supporting clients by clearly identifying and measuring risks and costs. He also advised on appropriate measures to reduce those costs, focusing on post-acquisition funding requirements.

Murray Gold – Koskie Minsky



Murray Gold is a senior pension and benefits partner (see: Chambers Canada 2017 Rankings) with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trustee pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

Murray Gold is a Fellow of the Ontario Teachers' Federation, an honor in recognition of his work in regard to the Ontario Teachers' Pension Plan.

Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan



Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

Mr. Leech is chair of the board of Toronto General and Western Hospital Foundation. He is a member of the board of the MasterCard Foundation and was a founding director of Right To Play International. He has been named Chancellor-designate of Queen's University, effective July 1, 2014 and currently chairs the advisory board of the Queen's School of Business. Mr. Leech also serves on the advisory board for The Learning Partnership, the advisory council for the Toronto Region Board of Trade and the Toronto Financial Services Leadership Council. In addition, Mr. Leech is a member of the government of Ontario's Economic Advisory Panel.

In 2012, Mr. Leech was awarded the Queen's Diamond Jubilee medal in recognition of his work with the True Patriot Love Foundation. In 2013, he co-authored (with Globe and Mail Senior Writer Jacquie McNish) a book on pension reform called *The Third Rail: Confronting our pension failures*. He has announced his retirement effective December 31, 2013.

Wayne Streliaff, FCPA, FCA – former Auditor General



Mr. Streliaff has served as both the Auditor General of British Columbia (2000-2006) and the Provincial Auditor of Saskatchewan (1990-2000). He was the Assistant Director of Public Sector Accounting and Auditing at the Canadian Institute of Chartered Accountants (CICA), contributing to the initial development of ground breaking professional accounting and auditing standards for the public sector.

Mr. Streliaff has consistently worked to strengthen public sector governance, management and accountability practices. He has served on many national organizations including as a member and governor of the CCAF (formerly the Canadian Comprehensive Auditing Foundation), as the inaugural chair of the Canadian Council of Legislative Auditors Planning and Coordinating Committee and as a member of the CICA's Public Sector Accounting Board.

Since retirement in 2006, he has served as the inaugural Chair of the Quality Worklife/Quality Healthcare Collaborative, a nationwide group of 12 Canadian health organizations dedicated to developing an evidence-informed framework and action strategy to ensure a healthier Canadian public health workplace and, thus, improving the quality of patient care; he has served as a member of the Health Council of Canada's Value for Money Steering Committee; and he has advised senior officials in the public and private sectors on various governance, management and accountability matters.

Mr. Streliaff received B.A., B.Comm. and M.Sc. degrees from the University of Saskatchewan. He obtained his C.A. at Peat Marwick Mitchell (now KPMG).

In 1992, Mr. Streliaff was awarded the Commemorative Medal for the 125th Anniversary of Confederation of Canada in recognition of his significant contributions to compatriots, the community and to Canada. In 2003, he was recognized by the Institute of Chartered Accountants of British Columbia for his contribution to the accounting profession, by naming him a Fellow and awarding him the FCA designation.

Andrew Fung – Morneau Shepell



Andrew Fung, FSA, FCIA, CFA joined Morneau Shepell on November 10, 2015 as a partner in its Ontario Retirement Solutions Practice.

Prior to joining Morneau Shepell, Mr. Fung was a Senior Vice President at one of the largest public sector pension plans in Ontario. He has extensive experience in the areas of board governance, stakeholder relations, policy and research, strategy and growth, service and product development, government relations and advocacy, and communications. He is well versed in areas such as pension funding policy and risk management, having practiced as a senior actuary in both an international actuarial firm and a major accounting firm.

Mr. Fung is Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a Chartered Financial Analyst. He has a Bachelor of Mathematics degree (Dean's Honour List) from the University of Waterloo, and is currently enrolled in the Institute of Corporate Directors - Director Education Program.

Anne G.S. Soh - OMERS



Anne Soh is Vice President, Actuarial Services and Plan Actuary at the Ontario Municipal Employees Retirement System (OMERS). She serves as the actuarial advisor to both OMERS Boards of Directors in managing the funding of the OMERS Pension Plans and oversees the in-house actuarial department.

Anne is an actuary with over 20 years of experience in the pension and benefits industry. Prior to joining OMERS, she was a senior consulting actuary at both Mercer and at Watson Wyatt (now Willis Towers Watson), where she provided advice to her clients on funding strategies, plan design, administration and communication issues.

She also serves as the Chair of the Pension Plan Advisory Committee of the Pension Plan of the United Church of Canada and is a pension committee member for the Pension Plan for Employees of Canada's National Ballet School.

Anne is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and holds a Honours BSc from the University of Western Ontario.

Philip Morse – Willis Towers Watson



Philip Morse is a Fellow of the Canadian Institute of Actuaries (CIA), the professional body governing the education, qualification, conduct and work of actuaries in Canada.

He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa



Darlene Himick received a Ph.D. in Accounting from the University of Calgary and an MBA from Dalhousie University. Professor Himick also earned an LLB from Osgoode Hall Law School, York University and is a member of the Nova Scotia Bar. She was previously an Assistant Professor at the John Molson School of Business, Concordia University. Her teaching interests include financial accounting, managerial accounting, accounting theory, and financial statement analysis. A Charterholder with the CFA Institute, Ms. Himick served for several years as a pension investment consultant before she began her academic career. Among her many current roles, she is a Senior Research Fellow with the Shareholder Association for Research and Education, based in Vancouver, B.C.

Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo



- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

From: [Young, Gwendolynne \(MOF\)](#)
To: [David McLean \(MOF\)](#); [Kyle MacIntyre \(MOF\)](#); [Visca, Marie \(MOF\)](#); [Elizabeth Mendes \(MOF\)](#); [Ghiassi, Ali \(MOF\)](#); [Gadi Mayman](#); [Brian Lewis \(MOL\)](#)
Cc: [Nicole Simone \(MOI\)](#); [Dane Nelson \(MOF\)](#); [Birks, Ryan \(MOF\)](#); [Patrick Laughton \(MOF\)](#); [Lynsey Wynberg](#); [Ghufran Tarin \(MOF\)](#)
Subject: MMP Products
Date: Tuesday, January 17, 2017 5:09:38 PM
Attachments: [6. Key Accounting Risks Fiscal Update.pptx](#)
[a. MMP Meeting - Agenda - Jan18.docx](#)
[b. MMP Meeting - ToC Jan18.docx](#)
[1. MMP Meeting - Pension Asset Expert Advisory Panel Deck v2 - Jan 18.pptx](#)
[2. MMP - Meeting - Fiscal Update and Key Decisions - Jan 18.pptx](#)
[3. MMP Meeting - Economic and Revenue Update - Jan 18.pptx](#)
[4 - MMP Meeting - Potential Revenue Options for Document 2017 - Jan 18.docx](#)
[5. MMP Meeting - Fiscal Planning Program Expense - Jan 18.pptx](#)

Hi All,

Attached are the e-copies of the final products for MMP tomorrow. They've been numbered to match the Tab #'s in the ToC.

Hardcopy binders will be making their way around tonight. Dave will flip the materials for the SOC's office.

Thanks everyone for your support in pulling the materials together.

Best,
Gwen.

Gwen Young

p: 416.325.0741 | bb: 647.982.2419



Office of the Provincial Controller Division

Key Accounting Risks Fiscal Update Deck

Confidential – For Internal Discussion Purposes

Key Accounting Risks: Considerations

- Known upcoming accounting issues include:
 - reporting of net pension assets,
 - basis of consolidation for OPG and Hydro One and
 - developments regarding contaminated sites liabilities.
- In addition, the timing of recognition of cap-and-trade auction proceeds affects the trajectory for revenues, and decisions on associated matching program expense.
- The FES fiscal plan included a cautious approach that all net pension assets would not be reported by the Province in future and a status quo approach for the other expense items, based on information available at the time.
- Forecasted amounts for these risks are subject to change, as they will be updated in the current year. New information for pensions is expected in mid-February 2017 and for OPG and Hydro One at the end of February 2017.
- The total estimated fiscal impacts to the FES plan from the preferred approach to the accounting risks are (\$2.8B) savings in 2017-18 as compared to FES.

Key Accounting Risks

Fiscal Impact Overview

	Issue	Fiscal Impact to FES					Details
		2016-17	2017-18	2018-19	2019-20	2020-21*	REF
1	Reporting of Net Pension Assets A - Current AG's position B - Expert Panel Position (Estimates to be updated in early February, 2017)	- (\$ 2.2B)	- (\$2.7B)	- (\$3.1B)	- (\$3.1B)	- (\$3.1B)	Slide 4
2	Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS) A - Current FES - qualified opinion B - Preferred Approach (smoothed IFRS impact)* C - High Impact (non-smoothed IFRS impact)** * OPG estimate of cumulative impact for 2015-2020 \$2.5B **OPG estimate of cumulative impact for 2015-2020 \$2.6B	- \$75 M \$1B	- \$425M \$375M	- \$525M \$400M	- \$675M \$400M	- \$675M \$400M	Slides 5 & 6
3	Contaminated sites liabilities Estimated impact Essar, Stelco and MNM related liabilities	\$50M	-	NA	NA	NA	Slide 7 & 8
4	Cap and Trade Proceeds (does not include reduction in amount estimated by MOF)	\$478M	(\$478M)	-	-	-	Slide 9
	Total fiscal (savings)/pressure Preferred Approach High impact approach	(\$1.6B) \$1.5B	(\$2.8B) (\$0.1B)	(\$2.6B) \$0.4B	(\$2.4B) \$0.4B	(\$2.4B) \$0.4B	

* 2020-21 numbers are not available at this time and have been projected as being consistent with 2019-20.

Reporting of Net Pension Assets

(\$ Millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Assumptions
<u>Current FES: Regulated accounting used in Public Accounts</u>	-	-	-	-	-	- No pension assets should be reported for OTPP or OPSEUPP - AG's position on HOOPP and CAATPP has not been communicated, but assumed consistent for this purpose - Regulation on accounting to support signoff on the Financial Statements would be required. - AG would qualify her opinion due to use of regulation
<u>Preferred Approach- Expert Advisory Panel position</u>	(\$2.2B)	(\$2.7B)	(\$3.1B)	(\$3.1B)	(\$3.1B)	- Expert Advisory Panel (EAP) agrees with the Province's position to recognize pension assets for joint sponsored plans (OTPP and OPSEU) - Expect EAP to recommend that pension assets for HOOPP and CAATPP <u>should not</u> be reported under PSAS - If AG does not agree with Province (and Panel) audit report will be qualified.

Note: All Numbers are based on 2016 budget and estimates to be updated in early February, 2017 pending receipt of actuarial assessments

OPG/H1 Consolidation – (US GAAP/IFRS)

- US GAAP based reporting is accepted by Canadian Securities Regulators and rate regulators, including the Ontario Energy Board. Rate regulated entities including Hydro One and Ontario Power Generation, Enbridge, Union Gas, TransCanada Pipelines, report based on US GAAP and receive clean audit opinions.
- Hydro One can use US GAAP indefinitely based on securities regulations. OPG can use US GAAP based on securities regulations until at least January 1, 2019 in light of on-going deliberations under IFRS in relation to rate regulated accounting.
- PSAS does not acknowledge the use of US GAAP as a basis for reporting in the consolidated financial statements of the province – it only acknowledges International Financial Reporting Standards (IFRS).
- In 2015-16, the Province consolidated H1 or OPG using US GAAP. The differences between US GAAP and IFRS were immaterial.
- Reporting H1 and OPG results on an IFRS basis would have a significant impact in 2016-17 and beyond, mainly due to differences in the accounting treatment for OPG's nuclear related asset retirement obligation.
- Potential IFRS vs. US GAAP differences could increase materially if rate regulated accounting is rejected under IFRS (decision could take several years).

IFRS vs. US GAAP for consolidation of H1 and OPG

(\$ Millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Assumptions
<u>Current approach – Qualified Opinion</u>	-	-	-	-	-	- Status Quo: Province continues to consolidate H1 and OPG on US GAAP basis (same basis as used GBEs) - Province adjusts statutory framework to support this accounting policy decision, including passing any needed FAA regulation - AG qualifies her audit opinion
<u>Preferred Approach (smoothed IFRS impact)</u> <u>Adopt IFRS for Public Accounts with annual update to ARO discount rate*</u>	\$75M	\$425M	\$525M	\$675M	\$675M	- Province consolidates OPG and H1 results as calculated under IFRS reflecting <u>annual updates</u> to the discount rate applied to calculate OPG's asset retirement obligation - The year over year change is higher than alternative below due to change in annual discount rate - If AG agrees with the Province's preferred annual update approach – unqualified opinion - Province would accept risk of potential future elimination of rate regulated accounting under IFRS standards (potential write-off of \$9 billion in regulatory assets, introduction of volatility to annual surplus/deficit – decision not expected to be known for several years)
<u>High impact (not smoothed):</u> <u>Adopt IFRS for Public Accounts (5 year update to ARO discount rate) **</u> <u>Method used by AG to determine error.</u>	\$1B	\$375M	\$400M	\$400M	\$400M	- Province consolidates OPG and H1 results as calculated under IFRS reflecting updates to the discount rate for OPG's nuclear-related asset retirement obligations only <u>every five years</u> (in the year of an ONFA update) - The year over year change is lower than alternative above due to same discount rate over the 5 years under this approach - Province would accept AG's view regarding frequency of ARO discount rate update (inconsistent with OPG's updated estimate approach and preference for annual updates) - Province would accept risk of potential future elimination of rate regulated accounting under IFRS standards (write-off of \$9 billion in regulatory assets, introduction of volatility to annual surplus/deficit – decision not expected to be known for several years)

* OPG estimate of cumulative impact for 2015-2020 \$2.5B

**OPG estimate of cumulative impact for 2015-2020 \$2.6B

Confidential Advice to Cabinet – PRELIMINARY DRAFT, All numbers subject to change

Contaminated Sites Liabilities: Considerations

- In February 2015, TB/MBC approved the adoption of a new Public Sector Accounting Board (PSAB) standard related to liabilities for environmental remediation of contaminated sites. Related amendments to the Financial Administration Act were brought into force in the spring of 2015.
- Ministries reported their existing known environmental liabilities in the 2015-16 PRRT process and a total liability of \$1.7B was booked in the 2014-15 Public Accounts. Remediation costs for these sites that were included in the initial estimate of the liability can be incurred without further fiscal impact.
- Further increments to amounts for existing sites, and any amounts for new sites, require recognizing the expense and related at the time it is known and estimable.
- Fiscal impacts noted for the items on the following slide reflect only the contaminated site expense exposure, and do not reflect other potential fiscal impacts of the related transactions.

Contaminated Sites

(\$ Millions)	2016-17	Assumptions
<u>Essar Steel</u>	\$50M	- Contingent on court ruling (expected in January 2017) which may provide approval for a restructuring proposal for Essar Steel. Anticipated proposal would result in the Province being the only party available to take responsibility to address contamination. - Potential exposure relates to a high risk Essar Steel site (from a health and safety point of view) with contaminating groundwater, and a water treatment plant which is partially built.
<u>Stelco</u>	\$0	- Negotiations currently underway with parties including U.S. Steel Canada (USSC) including the approach for USSC contaminated land in Hamilton. Current proposal would involve Province assuming an \$80M legacy obligation regarding the contaminated site, as well as an offsetting payment of \$80M. - Risk that if negotiations unsuccessful, the land may be abandoned, leaving the Province to assume the entire responsibility for remediation (potentially significantly more than \$80M), with no offset. - Timing of potential agreement (TBC – likely 2016-17)
<u>MNDM New Contaminated Site Liability</u>	Unknown could be \$50M -\$100M	MNDM is expecting a site assessment to be completed on a potentially contaminated site which is as high risk (to confirm whether a material amount of remediation required).
Contaminated Sites (general)	TBD	AG will be conducting a follow-up audit on contaminated sites during the 2016/17 Public Accounts audit which may result in additional accounting and/or audit risk related to liability recognition and measurement.

Accounting for Cap and Trade Revenues: Considerations

- Accounting advice is being developed, and confirmed with the Auditor General, as to at what point in the business process of cap and trade auctions the Province should recognize the revenue from the auction. Likely outcome is revenues will have been earned once the allowances have been provided to the auction participants.
- Current planned date of first auction (March 22, 2017) would lead to 2017-18 as the year in which those revenues can be booked as the allowances are not transferred to the participants until 2017-18. FES fiscal plan had assumed revenues booked in 2016-17, when the auction was held and all bids registered.
- MOECC has added additional caution as to possible participation in the auctions, which has reduced the revenue forecast for each auction from the FES fiscal plan. This change is not reflected as part of the accounting risk.

Other Relevant Accounting Issues

1. Accounting implications of Metrolinx agreement with City of Toronto
 - Risk: If control criteria not met for accounting purposes, Province will have to write off capitalized costs (immediate expense impact), and future investments/transfers will be accounted for as expenses
2. Accounting for various electricity sector transactions (H1 shares, Brampton Hydro)
3. 2016-17 Transfer payment expense recognition (timing)
 - Risk: Status of transfer payment agreements and timing of cash flows related to year-end TPs expected to impact timing of expense recognition

MINISTERS & PREMIER MEETING

Date: January 18, 2017 | Time: 9:30AM – 11:00 AM
Location: Room 275, Cabinet Room, Main Legislative Building

Proposed Agenda

1. Pension Asset Expert Advisory Panel Report (9:30am – 10:00am)
2. 2017 Document Fiscal Architecture: Fiscal Update and Key Decisions (10:00am – 11:00am)

MINISTER, MINISTER & PREMIER MEETING

Date: January 18, 2017 | Time: 9:30AM – 11:00AM
Location: Room 275, Cabinet Room, Legislative Building

TABLE OF CONTENTS

ITEM	TAB
Pension Asset Expert Advisory Panel Report	1
2017 Document Fiscal Architecture: Fiscal Update and Key Decisions	2

APPENDIX	TAB
Economic and Revenue Update	3
Potential Tax Revenue Options for Document 2017	4
2017 Document: Fiscal Planning Program Expense	5
Key Accounting Risks Fiscal Update Deck	6

Pension Asset Expert Advisory Panel

MMP Briefing

January 18, 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions.

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear.
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to government as contribution reductions and to employee sponsors as either contribution reductions or benefit improvements under terms of plan.
- An expected future benefit under the standard can exist without a unilateral legally enforceable right to reduce future contributions:
 - legal requirements for surplus withdrawal and contribution reductions are very different, and
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes.

Recognition of asset

- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs,
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit – each sponsor essentially has a veto, and
 - each sponsor can recognize an asset relating to its portion of that jointly controlled asset.
- In fact, the sponsors jointly have unilateral control over the net pension asset
 - as long as in compliance with the Pension Benefits Act
 - no action is required other than agreement on their part and filing the plan amendment with FSCO

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in planboth on a present value basis.

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions.
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions.

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions.
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts.

Recommendations to PSAB Task Force

- Report will note that in some areas, the necessary guidance was not found in the pension standard.
- The complete public sector standards provided a satisfactory basis for all of the Panel's conclusions.
- The Panel will identify for the Task Force those areas where additional guidance in the pension standard itself would be desirable.

Timelines and Next Steps

- Week of January 16th – Panel to review and finalize report and executive summary.
- Week of January 23rd – Final report and executive summary completed and approved by the Panel.
- Week of January 30th – send final report to Auditor General with offer to meet to discuss the findings.
- Early February – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) – Chair of the Canadian Actuarial Standards Oversight Council, member of the Canadian Accounting Standards Oversight Council, former Chair of the Canadian Accounting Standards Board and Chaired the International Forum of Accounting Standard Setters;
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP;
- Uros Karadzic – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting; and
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP.

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.
- The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

2017 Document Fiscal Architecture: Fiscal Update and Key Decisions



MM+P January 18, 2016

Preliminary Draft (All numbers to be confirmed) – January 17, 2017 3:45 PM

Purpose

To set the frame, priorities, and approach to the 2017 Document.

To review the proposed fiscal outlook for the 2017 Document and consider options for addressing fiscal pressures.

This presentation will provide:

- An economic and fiscal update;
- Updates on the PRRT process and decisions, and;
- Proposed framework on decision-making and next steps.

Framing the Balance of Choices for the 2017 Document

The 2017 Document will need to balance a number of strategic fiscal and investment priorities.

Build on Government's Plan and Demonstrate Progress

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**, meet fiscal targets and balance the budget in 2017-18.
- Continue to **transform** and protect public services for longer term sustainability.



Launch New Priority Investments

- Support **priority investments that help people in their everyday lives** such as additional electricity relief, child care expansion, highly-skilled workforce and youth jobs strategy, income security and priority health care investments.



Determine Balanced Approach to Priorities

- **Reconciling the government's fiscal anchors** – such as balancing the budget in 2017-18 and ongoing – **with the commitment to invest in priorities** – will require **trade-offs** and difficult choices.
- While balancing the budget in 2017-18 remains a central priority, the scope, size and roll-out of new priority investments **will require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

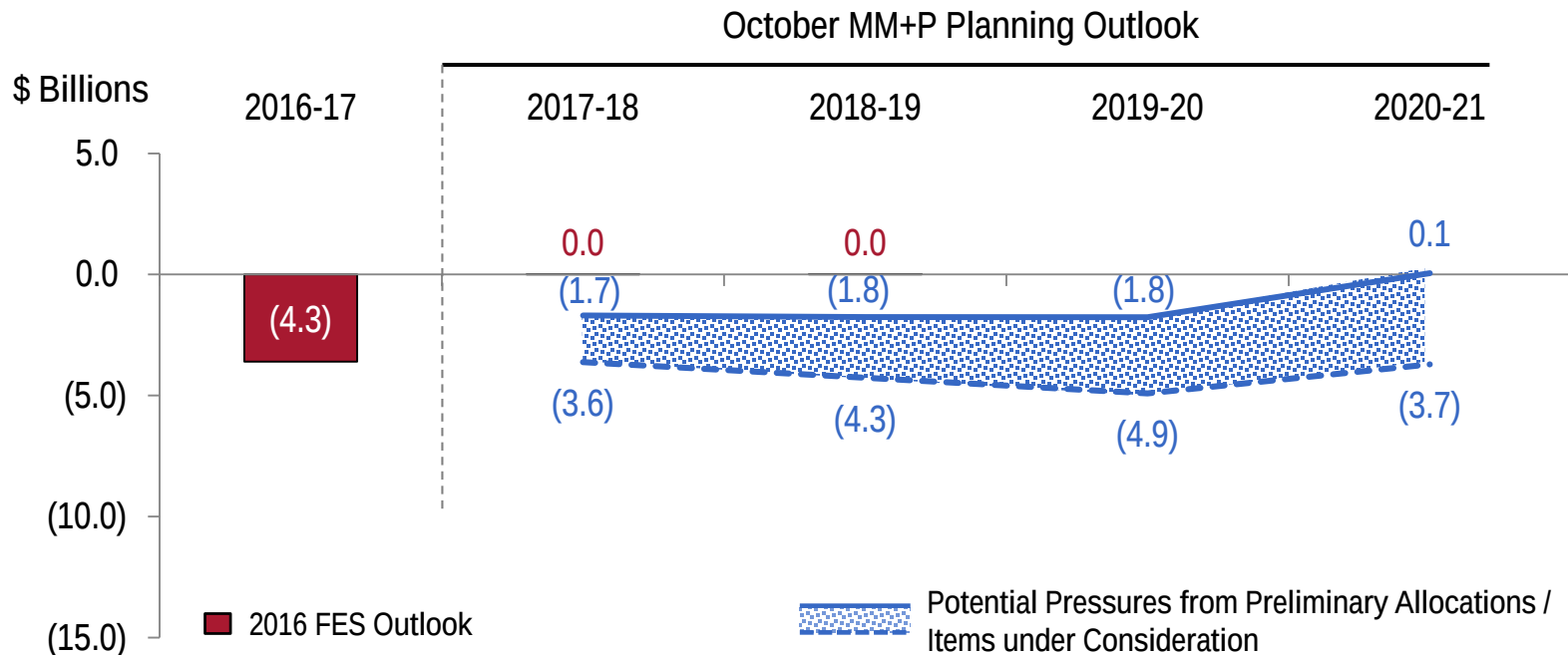
October MM+P Planning Outlook

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment have also materialized.**

The **2016 FES** projected that the government could achieve its fiscal targets while accommodating several new investments and the pension adjustment.

- However, **the FES fiscal outlook did not address** the potential fiscal impact of other known pressures, namely, those associated with preliminary allocations provided to ministries and other strategic investments under consideration.

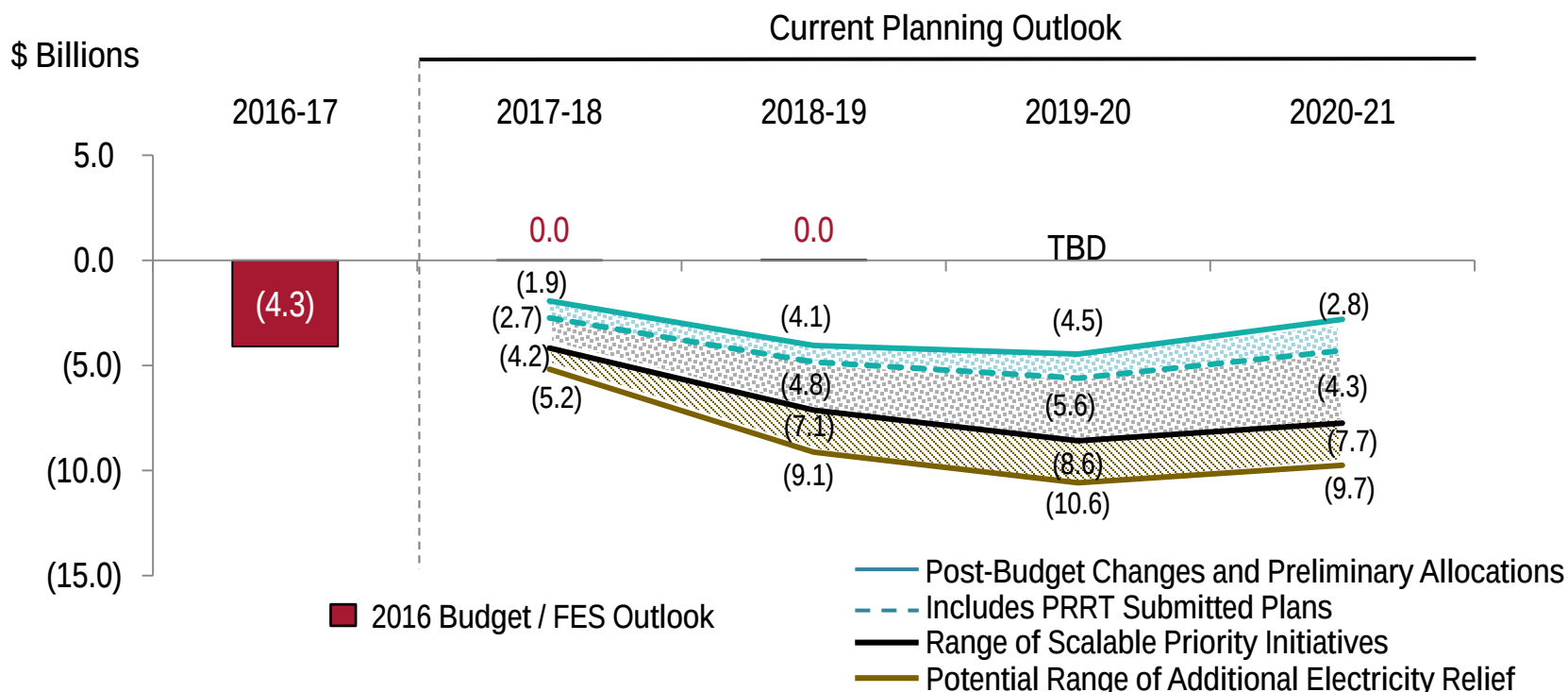


The Current Multi-Year Fiscal Challenge

Since the 2016 FES, the fiscal gap has deteriorated as a result of:

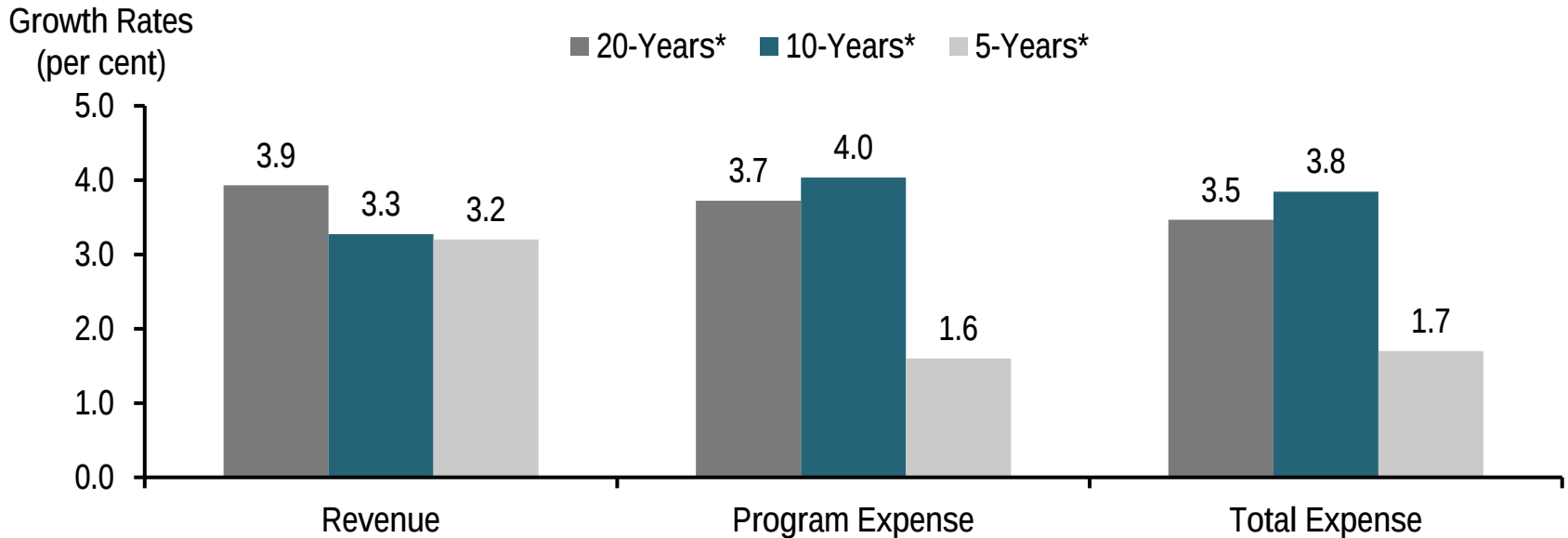
- **PRRT plans coming in above preliminary allocations** and the revised impact of **potential priority investments**. Additional electricity cost relief further widens the gap.
- The **pension adjustment beyond 2018-19 not being fully offset by revenue/expense tools**.
- **Other changes to revenue**, including a downward revision in Ontario's Equalization entitlement and asset optimization forecasts.

As a result, in the absence of further actions, the projected gap tracking against the government's fiscal targets is currently as much as \$5.2 billion in 2017-18, \$9.1 billion in 2018-19, and \$10.6 billion in 2019-20.



Historic Revenue and Expense Growth

- While over 20 years, revenue has exceeded total expense, over the past 10 years, the opposite has been true.
 - Should the 10-year trend continue, achieving balance and long-term fiscal sustainability could be challenging.
- To support the government's commitment to balancing the budget, total expense has been held to 1.7 per cent over the past five years, reflecting significant efforts to manage spending – which may be creating pressures in future years.



* 20-years growth rate is calculated from 1995-96 until 2015-16, the 10-years growth rate is calculated from 2005-06 until 2015-16, and the 5-year growth rate is calculated from 2010-11 to 2015-16.

Note: Average annual revenue growth excludes the net impact of a significant one-time increase of \$3.2 billion, resulting from the sale of Hydro One in 2015-16. Average annual expense growth excludes \$1.5 billion in Pension Adjustments for 2015-16.

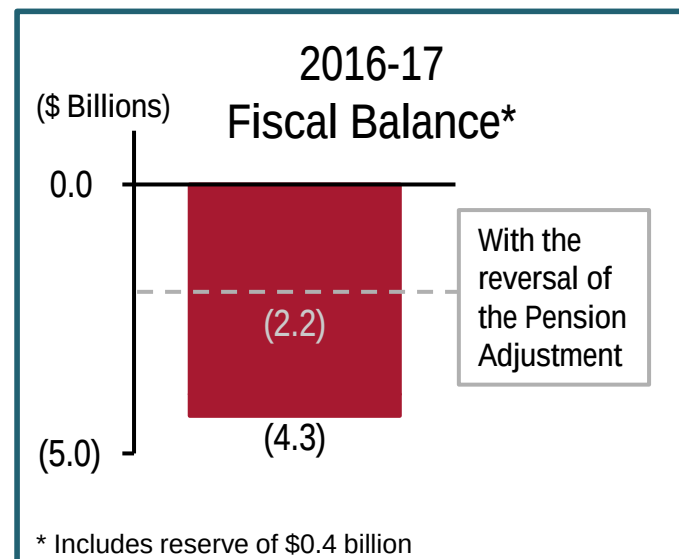
2016-17 Update

The **FES projected a deficit of \$4.3 billion in 2016-17**, consistent with the 2016 Budget – however, despite a stronger revenue outlook and lower interest on debt expense, the **reserve (now at \$0.4 billion) and contingency funds were reduced in order to accommodate the pension adjustment and new investments.**

2016-17 Update

Current information suggests that beating the \$4.3 billion deficit target for 2016-17 is within reach. However, key outstanding information/decisions (and associated risks) could impact the outlook:

- Treatment of Pension Assets (plus any valuation impacts)
- Accounting Framework for OPG and Hydro One (IFRS)
- What fiscal year to book proceeds from the first cap and trade auction in March 2017 (i.e. 2016-17 or 2017-18)
- Updates to revenue and expense (based on ministry interim actual projections)
- Contaminated sites liabilities



Third Quarter Finances

Ontario's Third Quarter Finances is a public fiscal update. Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

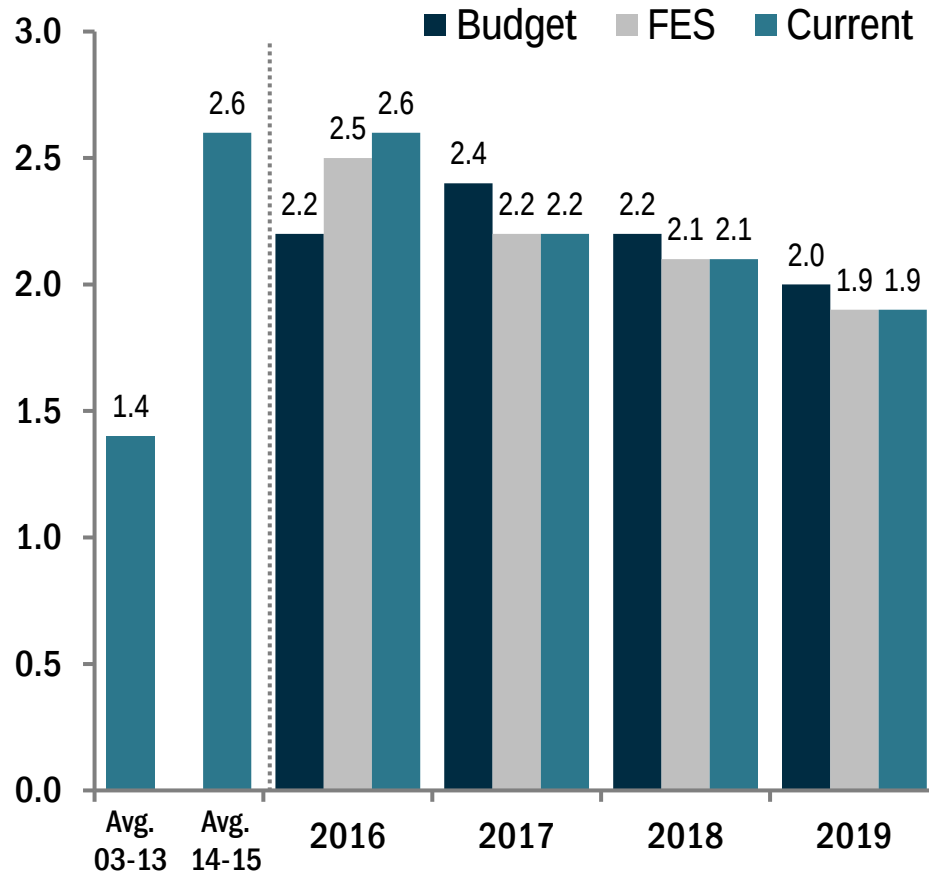
- **Be released by February 15th** (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense for the current year (16-17).

It also provides an opportunity for the government to reiterate key fiscal messages from the Budget and Fall Economic Statement or pre-condition for the 2017 Budget.

Of note, recommendations from the Pension Panel may be released in close proximity to the Third Quarter Finances and could impact the outlook the government chooses to publish.

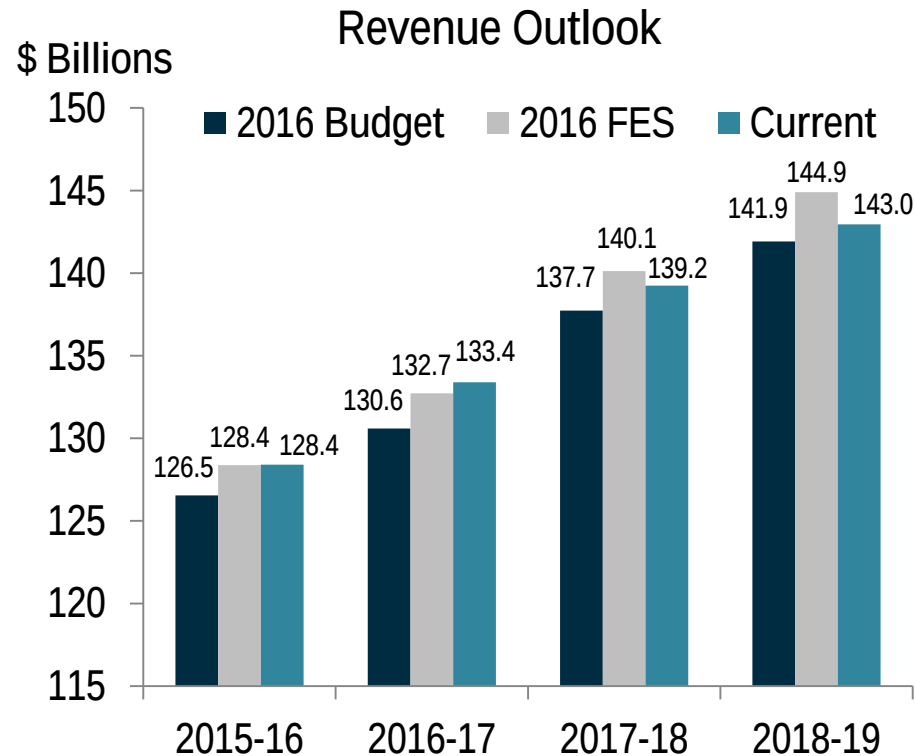
Current Economic Growth Outlook

Real GDP – Planning Assumption Per cent change



- Ontario's economy continues to grow at an above normal pace. Job creation has been relatively robust in recent months, and the unemployment rate has been edging down.
- Ontario has been one of the strongest growing provincial economies in Canada over the past three years and is expected remain so in 2017.
- Current economic growth outlook for 2017 to 2019 remains largely consistent with the 2016 FES.
- Emerging risks to the outlook are rising interest rates and uncertainty around the future path of US economic policy.

Current Revenue Outlook



Change in the Revenue Outlook

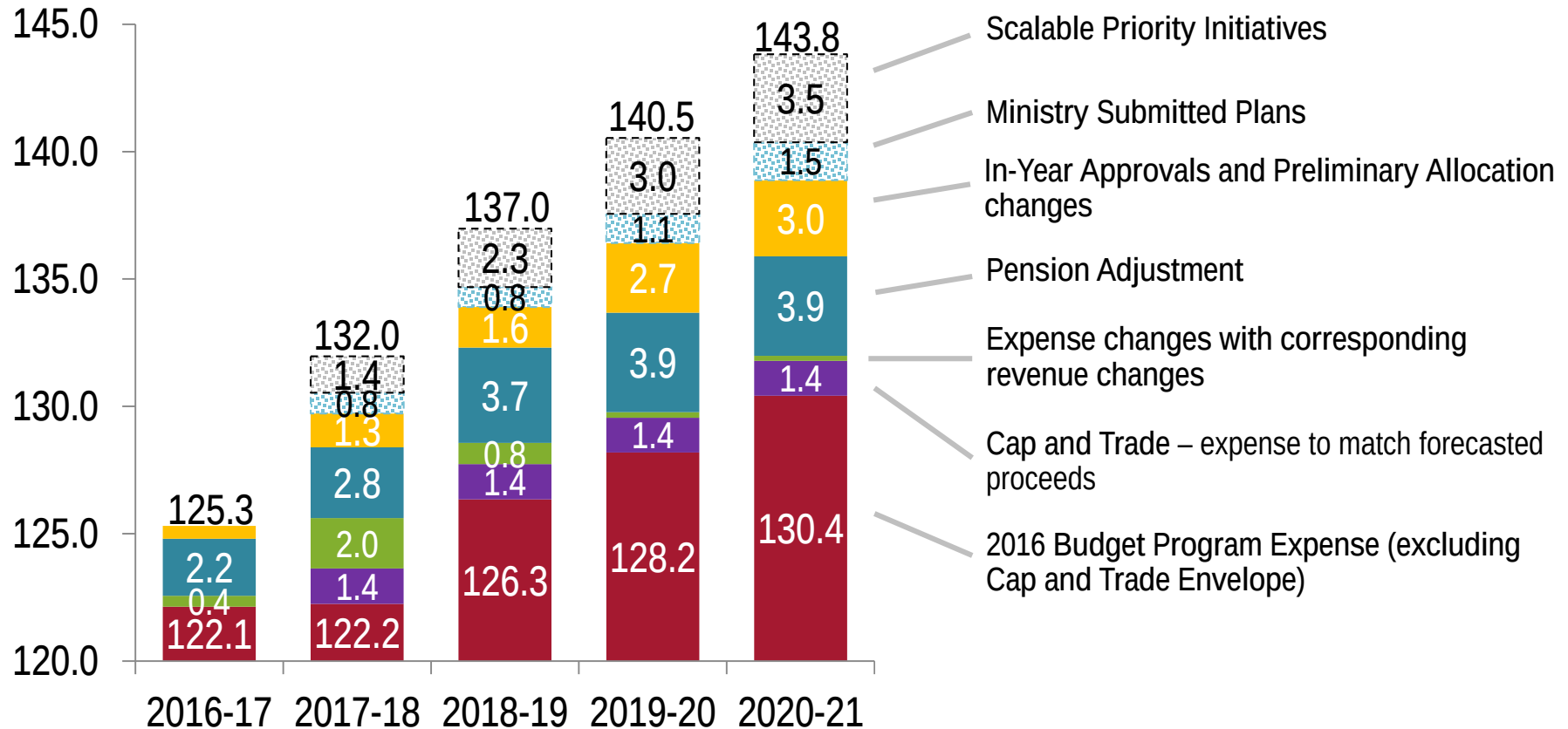
\$ Billions	2016-17	2017-18	2018-19
Since Budget	2.8	1.5	1.0
Since FES	0.7	(0.9)	(1.9)

- The current outlook calls for revenues to increase to \$143.0 billion in 2018-19, an average annual increase of 3.6% over three years.
- The outlook maintains key revenue assumptions included in the FES such as those regarding federal funding for infrastructure and home care.
- The improvement in the revenue outlook since the *2016 Budget* is mainly due to higher taxation revenues reflecting a stronger economy in 2015 and 2016. Revenue gains are mitigated by lower non-tax revenues outlined below.
- Higher 2016-17 revenues since the FES are mainly due to higher HST revenues. This is offset in 2017-18 and 2018-19 by lower projected non-tax revenues from Equalization, Asset Optimization and Cap & Trade proceeds.
- Information forthcoming over the next month could result in modest adjustments to the revenue outlook.
- Key revenue risks are the economic growth outlook, the housing market, federal transfers and cap and trade proceeds.

Program Requests

Program Expense

\$ Billions



- Program Expense growth at 2016 Budget averaged 1.9% per year between 2014-15 and 2018-19.
- Including ministry requests, average program expense growth is 3.3% between 2014-15 and 2020-21. Adding in interest on debt, the total expense grows at 3.3% over the same period.
- Additional electricity relief could increase the program expense growth rate to 3.6% between 2014-15 and 2020-21.

Ministry Submitted Plans

Need to do Items ... \$0.2B in 2017-18

Legislative and contractual obligations, and Health expense growing at 3%. Also includes project, amortization and consolidation updates along with TB decisions made after November 1.

For example, justice and corrections announcements; child welfare adjustments; capital and operating re-profiling (primarily MTO).

Continue to manage items ... \$0.2B in 2017-18

Ministries previously directed by TB/MBC to manage or have demonstrated ability to manage from within existing allocations. Also includes additional requests for relief from savings targets.

For example, MEDG pressures; Provincial contribution to Clean Water and Wastewater program; boulder savings targets.

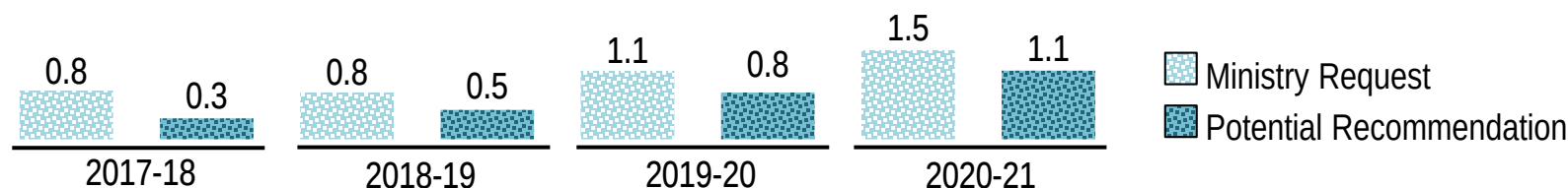
To Consider items ... \$0.2B in 2017-18

Discretionary requests from ministries that may be difficult to avoid.

For example, investments in OPS buildings; pressures in ministries (primarily MCSCS, MOECC, MNDM); additional capacity in ministries; and new capital (e.g., Halton Courthouse, correctional facilities, resources road lab).

Track as Risks Items ... \$0.2B in 2017-18

As in prior years, monitor forecasts for demand driven programs including Social Assistance payments and the 8% Electricity rebate.



Scalable Initiatives

- Initiatives under discussion need to be evaluated and scaled based on mandate commitments, timing and resources

Fund Now

Highly Skilled Workforce
 Youth Jobs Strategy
 Child Care Expansion
 Black Youth Action Plan
 Transitioning Adults with Special Needs
 Advancing Transformation in Dev. Services
 GO Transit Operating Subsidy
 Going Global Export Strategy
 Business Growth Initiative
 Retirement home sprinklers
 Improving Refugee Outcomes
 Budget Talks

Consider Not Funding

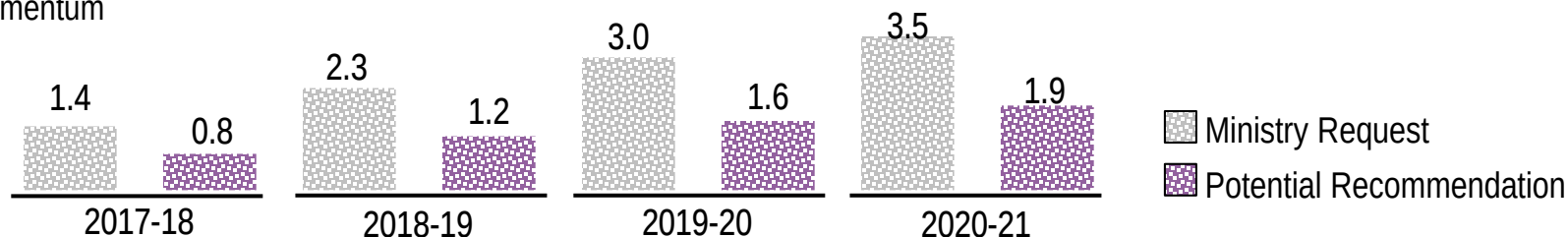
Health at an additional 0.2% to total 3.2%
 JPF Enhancement
 Ontario Place
 Ontario 150 – additional funding

Consider Funding

Senior Comm. Grants/Elderly Person Centres
 Additional OSAP support
 Income Security Reform
 Basic Income
 Additional Corrections Reform funding
 Project Momentum

Do Not Fund

Serious Fraud Office



Accounting Issues – Fiscal Impact Overview

Net Pension Assets	Fiscal impact to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21*
Current AG's position	-	-	-	-	-
Expert Panel Position (reverse write off of OTPP and OPSEUPP; HOOPP and CAATPP TBD)	(\$ 2.2B)	(\$2.7B)	(\$3.1B)	(\$3.1B)	(\$3.1B)
(Estimates to be updated in mid-February, 2017)					

- Panel has completed its work on OTPP and OPSEUPP; work on HOOPP and CAATPP is ongoing
- OTPP/OPSEUPP Panel Recommendations (to be followed by Province)
 - Panel agrees with recognition of the net assets on the basis that (a) net assets are economic resources available to the sponsors to reduce future contributions or improve benefits; (b) unilateral control is not necessary for asset recognition; (c) recognition of the assets faithfully represents the financial position of the Province and the substance of the sponsors' deal
 - Panel believes that no valuation allowance is required for either asset

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal impact to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21*
Current FES	-	-	-	-	-
Preferred Approach (smoothed IFRS impact)**	\$75 M	\$425M	\$525M	\$675M	\$675M
High Impact (non-smoothed IFRS impact)**	\$1B	\$375M	\$400M	\$400M	\$400M

**** OPG's estimate of cumulative impact for 2015-2020 is \$2.5B under the preferred approach, and \$2.6B under the high impact approach.**

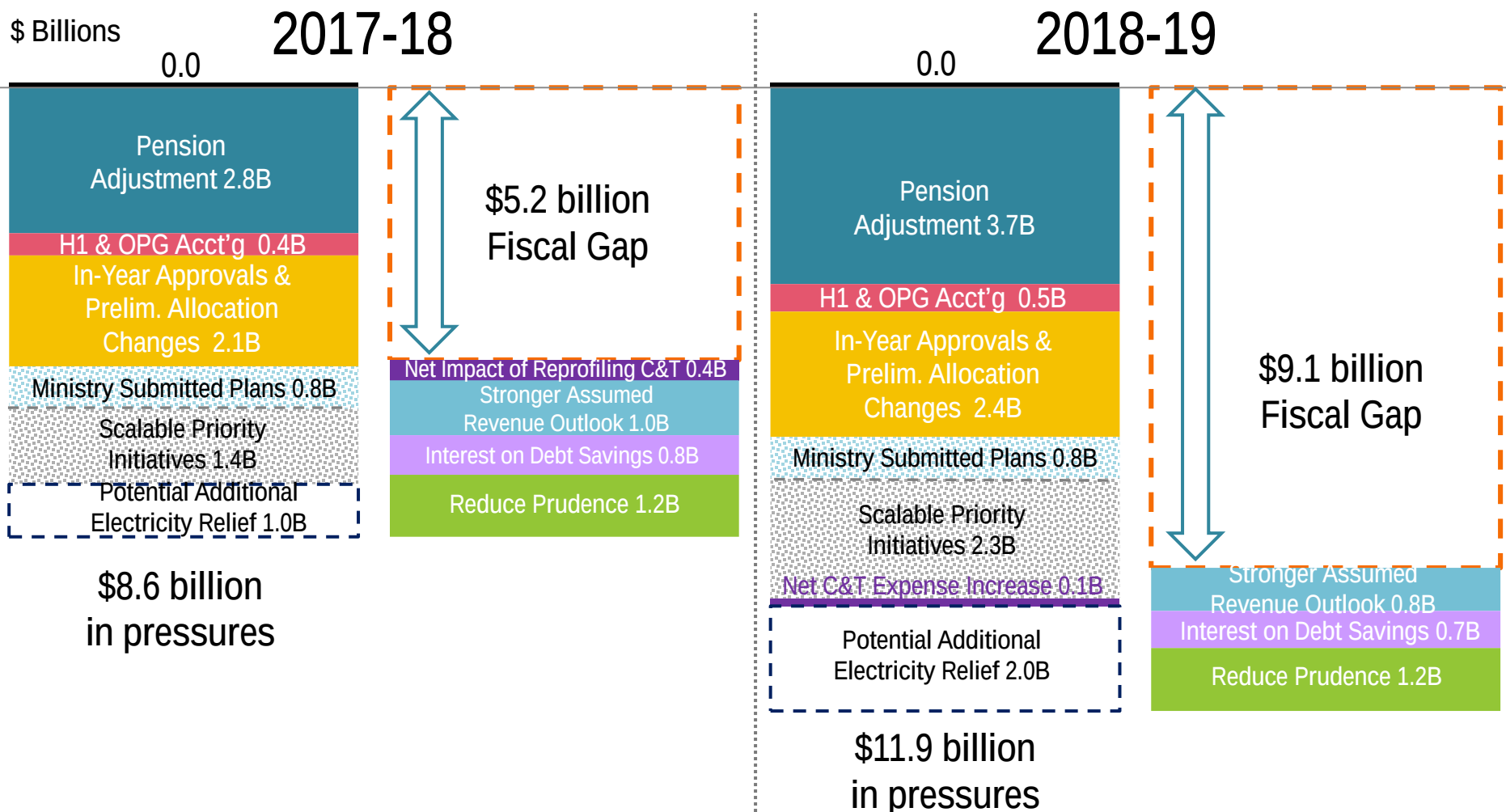
- In 2015-16, the Province consolidated H1 & OPG using US GAAP; differences between US GAAP and IFRS were immaterial.
- Public Sector Accounting Standards (PSAS) directs consolidation of these entities using IFRS; in 2016 Public Sector Accounting Board (PSAB) declined a request from the Province to expand the guidance to permit use of US GAAP for consolidation; AG agrees that IFRS is required for consolidation
- IFRS-US GAAP differences will become material as early as 2016-17, therefore continuing to consolidate using US GAAP is no longer appropriate
- Potential IFRS-US GAAP differences could increase materially if rate regulated accounting is rejected under IFRS (decision expected to take several years).

Note – The amounts presented for both issues are based on prior year/preliminary estimates – estimates will be updated by end of February. Other relevant accounting issues are outlined in the appendix.

Update on the Fiscal Challenge

In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget.

The remaining fiscal gap will need to be addressed through additional tools.



Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017.
- Adjustments to the government's asset optimization strategy
- Remaining 2015 CIT & PIT tax assessment information and ongoing tax receipts from provincially administered taxes
- PRRT updates (revised revenue outlooks from ministries, agencies and government business enterprises)
- Implications of Federal Budget

Expense

- 2017 Document initiatives
- Labour settlements
- Interest on debt forecast updates
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage

Accounting risks:

- Treatment of Pension Assets (plus any valuation impacts)
- Further updates to accounting Framework for OPG and Hydro One (IFRS)

Prudence

- Build the reserve back up to mitigate adverse impacts to the fiscal plan
- Resetting the contingency funds to accommodate expense risks and pressures

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for Approaching Closing the Gap

- The government could adopt the following **principles when considering trade-offs and tools** to close the gap in the lead up to the 2017 Document:
 - Ensure the fiscal plan has a **credible plan to achieve balance**:
 - **Ensure sufficient prudence** is built into the fiscal plan to protect against unforeseen or unanticipated impacts and provide **flexibility to address risks**.
 - Identify a **clear process** by which **savings targets are achieved**.
 - **Manage any assertions that a reversal of the pension adjustment** should create even greater surplus/fiscal room for additional investments.
 - Adopt a **focused and targeted approach to funding priorities** so that any tools used to fund investments align with overall government policy.
 - Consider **strategic roll-out (e.g., backend loaded) and scaling** of priority investments and above allocation requests.

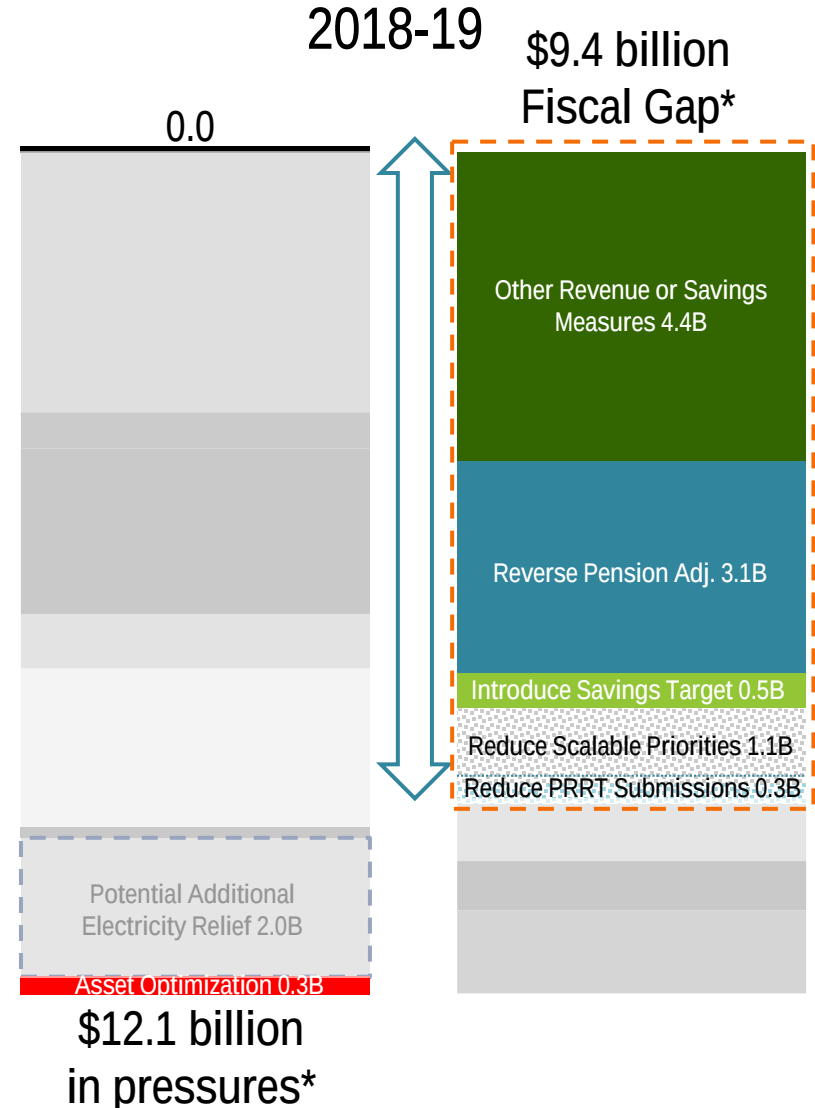
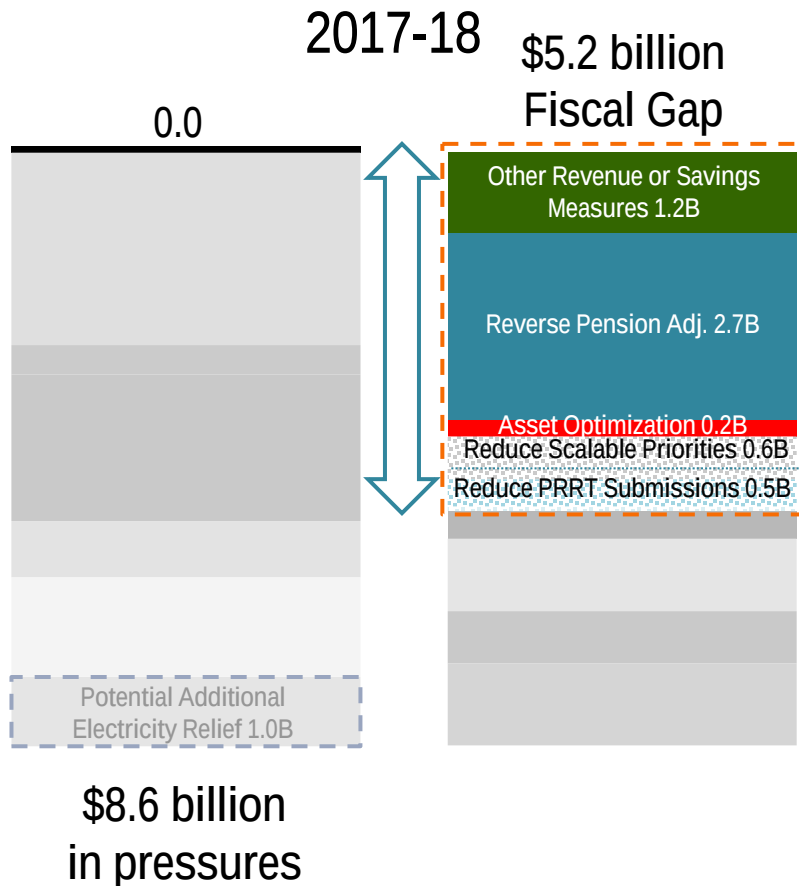
Potential Decisions to Achieve Fiscal Anchors

There are a number of revenue and expense measures that could be considered to achieve fiscal anchors.

Additional Revenue Measures	Federal Revenue Strategy
- Determine the scope for revenue tools, including: - Targeted Tax measures - Asset optimization (move final tranche from 2018-19 to 2017-18) - Non-tax revenue/use of C&T proceeds - Paralleling federal tax measures	- Engagement strategy with the federal government to maximize new federal funding, including: - Funding for climate change initiatives ✗ Infrastructure funding - Health funding
Additional Expense Measures	Review level of Prudence
- Determine the scope for expense measures, including: - Undertaking additional transformative initiatives - Revisiting in year approvals - Timing/scaling mandate letter commitments and ministry requests - Additional savings targets - Interest on Debt Savings	- What is the appropriate level of the C-Fund and reserve that should be built into the fiscal plan? ✗ Further reductions to the reserve or C-Fund increase vulnerability to future forecast changes

Illustrative Scenario to Balance With Other Investments

Excludes any additional factors that could impact the fiscal gap that would require additional tools to offset.



*Total pressures in 2018-19 increased from \$11.9 billion to \$12.1 billion due to the asset optimization tool assumed in 2017-18. This also results in an increased gap to fill from \$9.1 billion to \$9.4 billion.

Unfunded pressures

The following are unfunded initiatives. Adding any of these will require offsetting measures elsewhere (e.g., new revenues or cost savings):

- Design of further Electricity Price Mitigation (over and above HST rebate)
- Sharing additional gas tax revenues with municipalities
- Compensation agreements at a rate higher than 1.4% assumed in the fiscal plan (impact to be determined)
- Cost Matching for Phase 2 Federal Infrastructure Funding (\$2.5B over four years)
- National Housing Strategy (Impact to be Determined)
- Health Sector Risks Above 3% Annual Growth (~\$400M in 2017-18)
- Potential Indigenous Land Claim settlements (up to \$80M in 2017-18)
- Resource Revenue Sharing (\$70M annually starting in 2018-19)
- Shortfall in non-tax revenue as some ministries have requested fee reductions

Other outstanding items that could impact the fiscal plan include:

- School Board Enrolment Forecast
- Consolidations Forecast
- Health Capital

Summary of Key Decisions

- Current information suggests that **beating the government's \$4.3 billion deficit target in 2016-17 is within reach** (including the reserve and pension asset).
- However, even if the pension adjustment is reversed, a smoothed approach to IFRS accounting is adopted and priority new investments are rolled-out strategically, **achieving balance in 2017-18 and beyond is not possible without new revenue measures and/or new spending constraint.**

Potential Expense Tools

- **Limit funding** for ministry above-allocation PRRT requests
- **Focus new investments** on priority initiatives and consider **longer phase-in** options
- Implement additional transformation initiatives/a further **program review savings target**

Potential Revenue and Other Tools

- Increases to **tobacco, beer, and marijuana** tax revenue of up to \$0.1 billion in 2017-18, and up to \$0.2 billion by 2019-20*
- Increasing the **insurance premium tax** by 1 percentage point, which could generate up to \$0.3 billion in 2017-18, and up to \$0.4 billion by 2019-20
- Increase planned **education property tax** adjustment from 1% to 2% annually, which could generate up to \$0.1 billion in 2017-18. If this was extended to 2019-20, it could generate up to \$0.3 billion annually
- Use a greater proportion of **Cap and Trade proceeds** against in-plan GHG reduction expenditures
- While the above tools may be sufficient to balance in 2017-18, additional revenue tools will need to be considered to achieve balance in 2018-19 and beyond.

*Includes potential revenue associated with marijuana beginning in 2018-19.

Next Steps

- Develop approach for engagement with Auditor General regarding decisions of Province regarding key accounting issues (e.g., pensions, IFRS)
- Finalize approach to funding PRRT plans
- Develop and consider options and approaches to priority investments
- Continue to refine list of tools for consideration
- Next MM+P in February

Appendix

Pressures: Ministry Submitted Plans

2017-18

\$ Millions	2017-18	2018-19	2019-20	2020-21
TOTAL FUZZY BLUE	813	781	1,145	1,488
<i>Need to do items</i>				
Health at 3%	-	242	570	927
MAG, MCSCS Annualize Justice & Corrections reforms	77	76	59	60
MCYS Child Welfare (Fetal Alcohol and legislative component)	17	16	23	42
MTO Presto funding for TTC	27	45	46	48
Capital Re-profiling (MTO Highway Expansion/Rehab, GO Transit, Municipal Projects)	112	52	10	(1)
Other changes (consolidations, re-profile operating)	(37)	(99)	(37)	(87)
Total Non-Discretionary Items	196	328	671	989
<i>To Consider</i>				
MOI Safe & Sustainable Buildings and demolition	45	48	34	37
MCSCS – Class Action Resource Team	16	16	11	11
MOECC initiatives (e.g. Great Lakes Science, Lab Relocations)	15	23	25	13
New Capital Requests (e.g., Halton Courthouse, Correctional Facilities)*	-	-	-	-
MNDM initiatives (e.g. ONTC)	16	17	20	21
Ministry capacity request (FTEs and associated funding)	57	58	50	45
Other changes	3	2	(29)	30
Total To Consider	153	164	111	157

*Requests with long-term fiscal obligations. Total project costs for the Halton Courthouse is \$677M and the new correctional facilities is \$2.7B

Need to Do
24%

Consider
19%

Manage from
Within
26%

Track as Risks
31%

Pressures: Ministry Submitted Plans

2017-18

\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Manage from Within</i>				
Requests for relief from boulder savings target	21	62	79	73
MEDG/MRIS pressures (e.g. Communitech, Social Enterprise Fund)	16	19	21	19
Clean Water and Wastewater Provincial contribution	135	-	-	-
Various small requests without offsets	40	38	45	32
Total Manage from Within	212	119	145	124
<i>Track as risks</i>				
8% Electricity Rebate forecast risk	94	96	196	196
Social Assistance forecast risk	145	52	-	-
MCYS and MCSS capital initiatives	14	22	22	22
Total Track as risks	252	171	218	218

Need to Do
24%

Consider
19%

Manage from
Within
26%

Track as Risks
31%

Pressures: Scalable Options

\$ Millions	2017-18	2018-19	2019-20	2020-21
TOTAL SCALABLE OPTIONS (HIGH OPTION)	1,385	2,243	2,931	3,405
<i>Fund Now</i>				
Highly Skilled Workforce	232	281	313	323
Medium option (for discussion)	176	199	208	180
Youth Jobs Strategy	80	80	80	80
Low option	40	40	40	40
Child Care Expansion	232	421	610	799
Low option (with assumptions for out-years)	94	211	450	799
Black Youth Action Plan	6	19	19	19
Medium option	5	13	14	14
Transitioning Adults with Special Needs	66	82	91	103
Medium option	46	82	91	103
Advancing Transformation in Dev. Services	125	298	495	666
Low option (assumes policy review of program)	89	89	89	89
GO Transit Operating Subsidy	56	104	149	156
Low option	24	40	66	38
Going Global Export Strategy	14	13	22	22
Low option	9	11	16	16
Business Growth Initiative*	36	66	84	59
Low option	11	31	39	8
Retirement home sprinklers	15	22	4	-
Low option	7	10	3	-
Improving Refugee Outcomes	2	5	5	5
Fund for two years	2	5	-	-
Budget Talks	3	-	-	-
Fund at 100%	3	-	-	-
Total Fund Now	867	1,391	1,873	2,232
Total Fund Now	506	730	1,016	1,316

continued ...

**The combined total of the Going Global, BGI and JPF requests is \$60M in 2017-18, \$89M in 2018-19, \$117M in 2019-20 and \$91M in 2020-21.*

Pressures: Scalable Options

\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Consider Funding</i>				
Senior Comm. Grants/Elderly Person Centres	5	6	6	6
Low option	2	3	3	3
OSAP	64	76	80	85
Exempt RESPs, increase support for Indigenous learners	39	41	43	45
Income Security Reform	134	285	395	400
Low option (2% social assistance rate increase)	70	133	139	141
Basic Income	50	50	50	50
Low/Medium option	25	25	25	25
Additional Corrections Reform funding	47	143	155	155
Placeholder [more work required on staffing models]	32	72	76	76
Project Momentum*	89	90	77	58
placeholder in contingency fund	89	90	77	58
Total Consider Funding	389	650	763	754
Total Consider Funding	258	373	371	357
<i>To Consider Not Funding</i>				
Health at an additional 0.2% to total 3.2%	104	215	332	456
0.1% option	52	107	166	228
JPF Enhancement	10	10	10	10
Do not fund	-	-	-	-
Ontario Place	13	-	-	-
Do not fund	-	-	-	-
Ontario 150 – additional funding	50	25	-	-
Do not fund	-	-	-	-
Total Consider Not Funding	177	250	342	466
Total Consider Not Funding	52	107	166	228

continued ...

*Reflects profile for Honda (\$8M in 2017-18, \$10M in 2018-19, \$10M in 2019-20 and \$3M in 2020-21) as well as potential agreements for Ford and Toyota

Pressures: Scalable Options

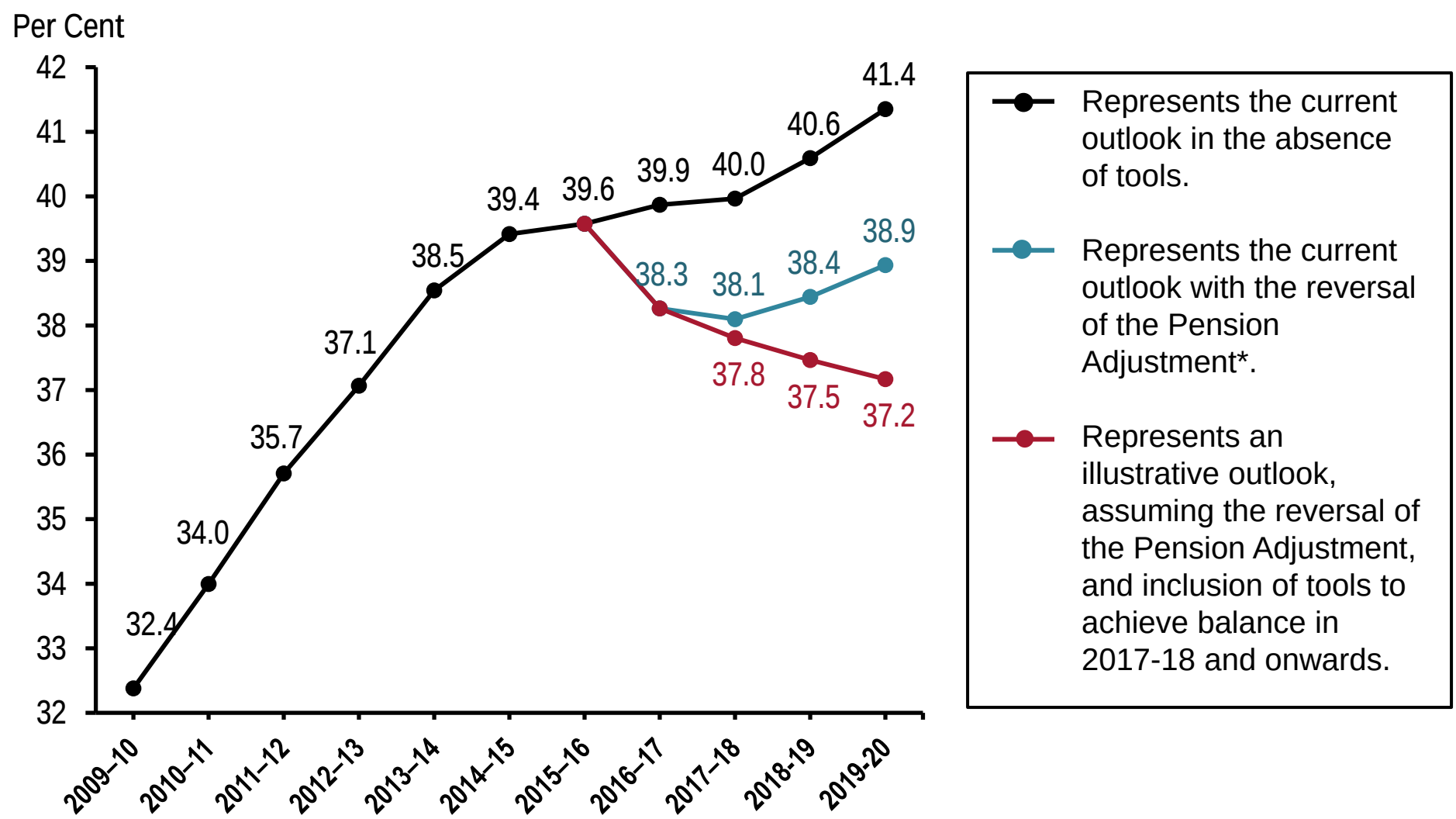
\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Do Not Fund</i>				
Serious Fraud Office	2	3	3	3
Do not fund	-	-	-	-
Total Do Not Fund	2	3	3	3
Total Do Not Fund	-	-	-	-
Total Scalable Options (High Option)	1,435	2,293	2,981	3,455
Scenario	816	1,211	1,554	1,901
Savings relative to High Options	619	1,083	1,427	1,554

Other Relevant Accounting Issues

Other relevant accounting issues include:

- Accounting implications of Metrolinx agreement with the City of Toronto;
 - o **Risk:** If control criteria not met for accounting purposes, the Province will have to write off capitalized costs (immediate expense impact), and future investments/transfers will be accounted for as expenses.
 - o **Risk Mitigation:** working group formed to ensure binding agreement with City preserves accounting for assets by the Province
- Transfer payment expense recognition (timing).
 - o **Risk:** Status of transfer payment agreements and timing of cash flows related to year-end TPs expected to impact timing of expense recognition, based on change in AG view on GIF TPs
 - o **Risk Mitigation:** communication of change in AG interpretation to stakeholders
- o Timing of cap & trade proceeds – previously discussed

Net Debt-to-GDP Scenarios



*Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the \$10.5 billion debt adjustment made in the 2015-16 Public Accounts

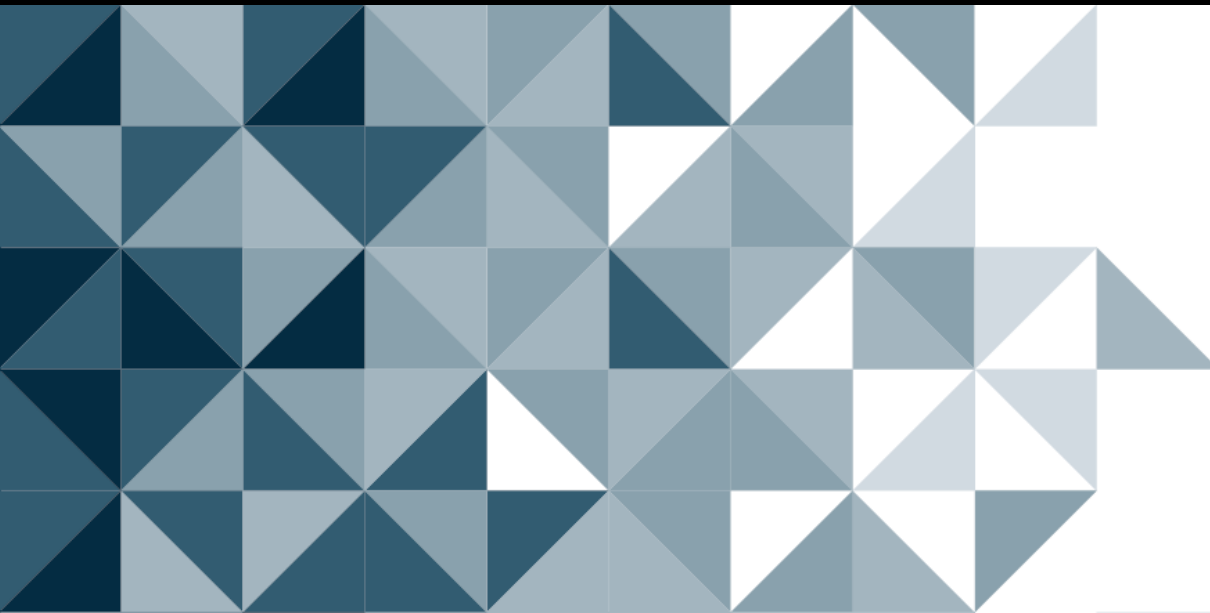
Economic and Revenue Update

FPC Briefing

Economic and Revenue Forecasting and Analysis Branch

January 12, 2017

Confidential Advice to the Minister



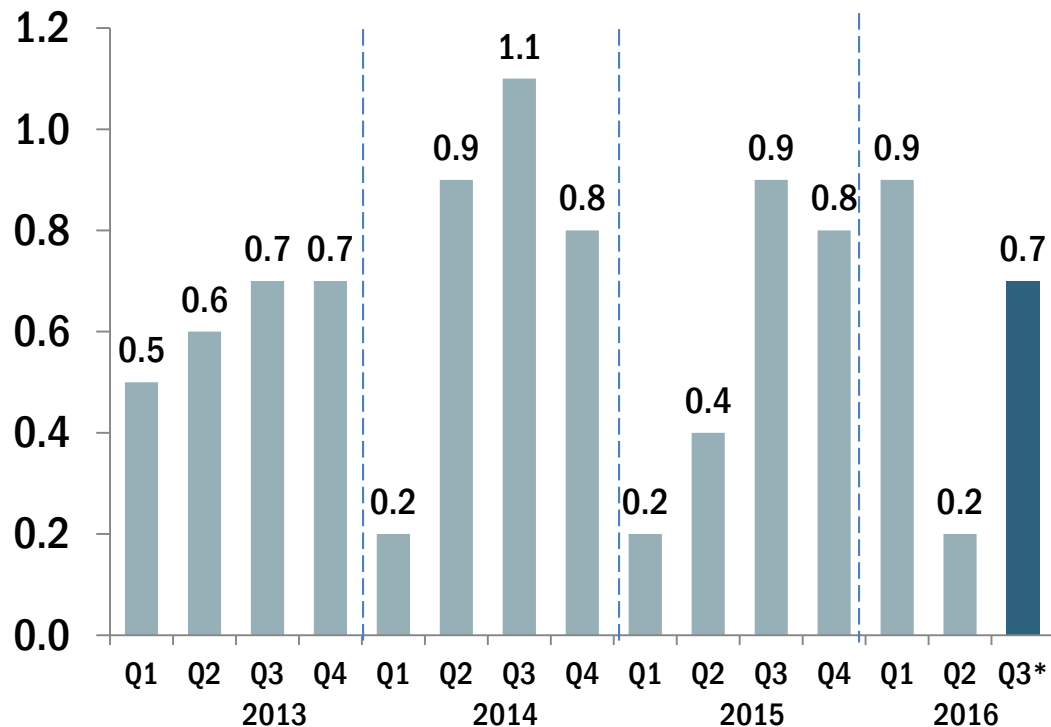
Economic and Revenue Update - Summary

- Ontario's economy continues to grow at a relatively strong pace.
 - Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
 - Limited information available for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains largely consistent with the 2016 FES forecast.
 - In the current environment it is difficult to predict changes to private sector forecasts that will anchor the 2017 Document forecast.
- The most significant immediate risks to the outlook are rising interest rates and uncertainty around the future path of US economic policy.
- Revenue developments since the mid-December update result in a material increase in the estimate for 2016-17 and a reduction in the outlook for 2017-18 and beyond due to a:
 - significant increase in 2016-17 HST revenues.
 - lower outlook for revenue from Equalization (2018-19), assets and cap & trade proceeds.

Ontario's Economy Advances in the Third Quarter 2016

Ontario Real GDP Growth

Per cent change



- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
- Higher exports and continued growth in household spending were the primary drivers of growth
- Canada-wide real GDP rebounded by 0.9% in Q3, following a decline in the second quarter largely tied to the Fort McMurray wildfires.

* Ontario Economic Accounts for the third quarter of 2016 to be released by January 13, 2017 as per the Fiscal Transparency and Accountability Act (FTAA).

Modest Growth Expected in 2016Q4

Ontario Key Economic Indicators

Per Cent Change

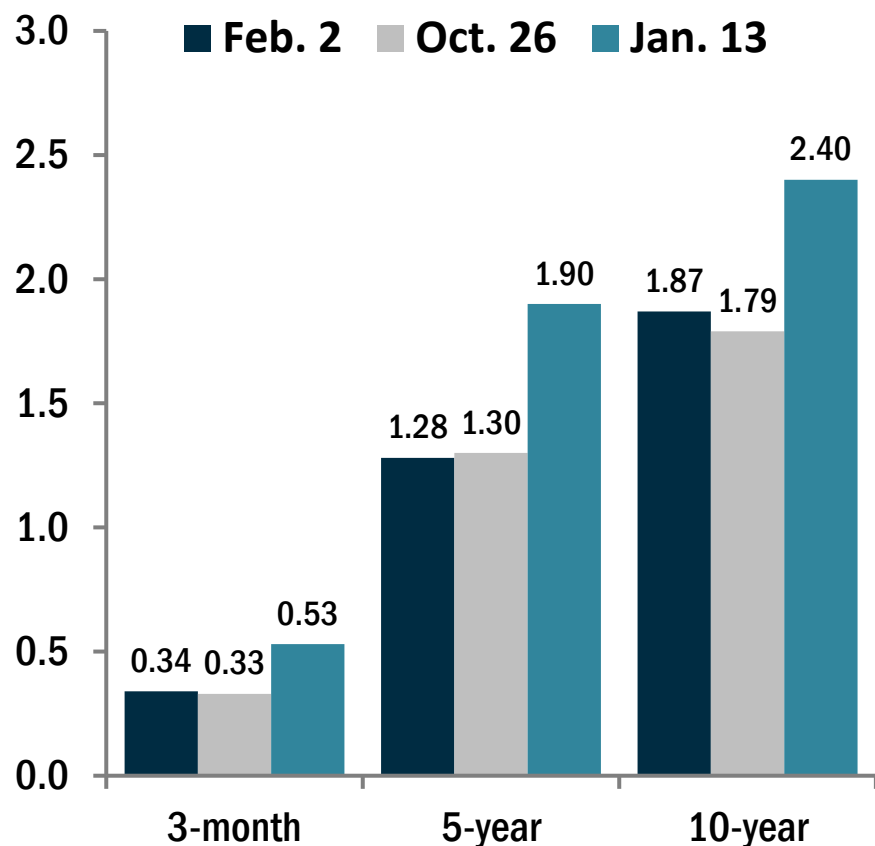


** Built-in growth rate for Q4 assumes no growth for the month of December.*

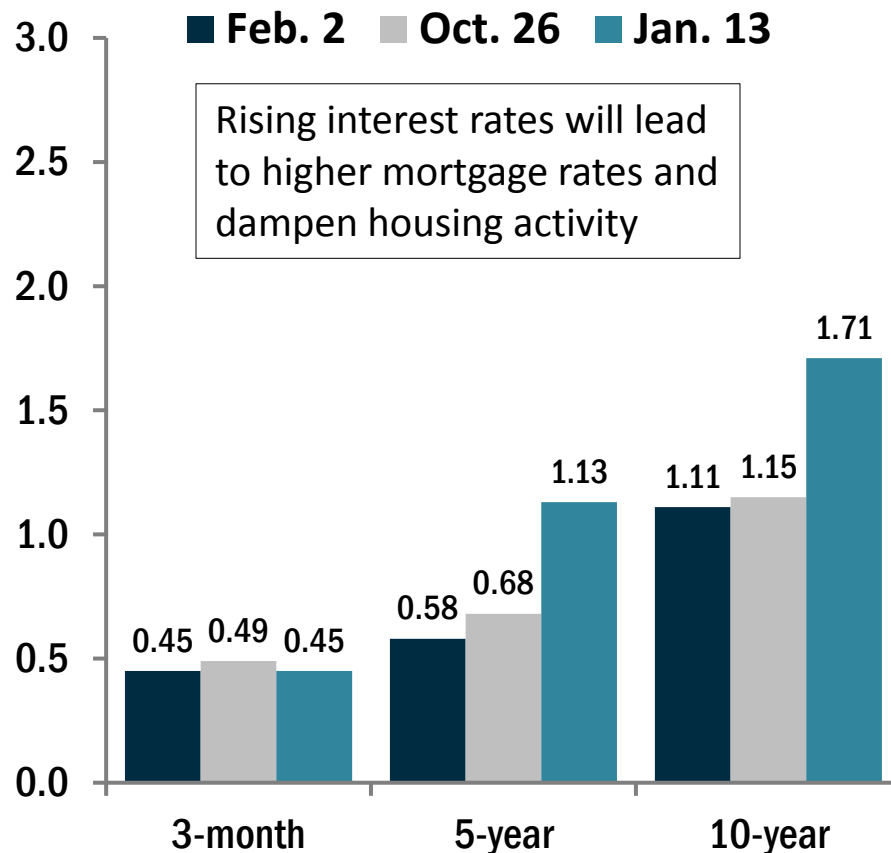
Source: Statistics Canada and Ontario Ministry of Finance.

Interest Rates Have Risen

U.S. Interest Rates Per cent



Canada Interest Rates Per cent



Note: Data up to February 2nd was incorporated into the 2016 Document and data up to October 26th was included in the 2016 FES.

Sources: Bank of Canada and U.S. Department of the Treasury.

Heightened US Policy Uncertainty

	Foreign Trade	Fiscal	Monetary	Immigration
Scenario	US increases trade barriers	US cuts taxes, reforms tax code and boosts infrastructure spending	US inflationary pressures rise	US immigration policy tightens significantly
Positive	Barriers mainly land on Mexico, China and/or the rest of Canada, not Ontario, increasing opportunities for Ontario exporters in the US.	Simulative fiscal policy results in stronger US economic growth in near term, boosts demand for Ontario goods and services.	Inflation remains contained, Federal Reserve only moderately raises interest rates. Tax reforms boost investment in economic capacity, lowering inflationary pressures.	US continues current modest deportation rates. Wall between US and Mexico becomes fence. No material impact on US economic growth or Ontario exports.
Negative	Renegotiated NAFTA results in significant barriers for Ontario exports to the US.	US government stimulus may not boost growth with economy already near capacity. Diminishes Ontario's personal and corporate tax competitiveness, shifting investment and skilled labour to the US.	Inflation builds sharply due to fiscal stimulus, resulting in significant interest rate increases. Puts upward pressure on Canadian interest rates, slowing Ontario growth and crashing the GTA housing market.	Dramatically restrictive approach with large deportation of illegal immigrants. Dampens US labour supply and economic growth in long term, lowering Ontario export potential.
Net Risk to Ontario	Significant downside long term	Moderate upside near term. Moderate downside, long term.	Moderate downside short to medium term	Low downside long term.
Latest Policy Signals	Trump threatened GM with a 'big border tax' on cars brought in from Mexico. Hours later, Ford cancelled a \$1.6 billion expansion in Mexico, instead investing \$700 million in Michigan.	Republican House Leader strongly supportive of tax reductions and reform. Less supportive of dramatic, unsustainable deficit increase.	10-year US gov't interest rates increased from 1.8% in early Nov to 2.5% in Jan. Inflation expectations have risen by a much smaller amount. Following Fed hike in Dec, U.S. prime rate up. Canadian banks have begun raising mortgage rates.	Homeland Security nominee has strong view of border security, but less hard-line than other possibilities.

Modest Adjustments to Private-Sector Economic Growth Forecasts

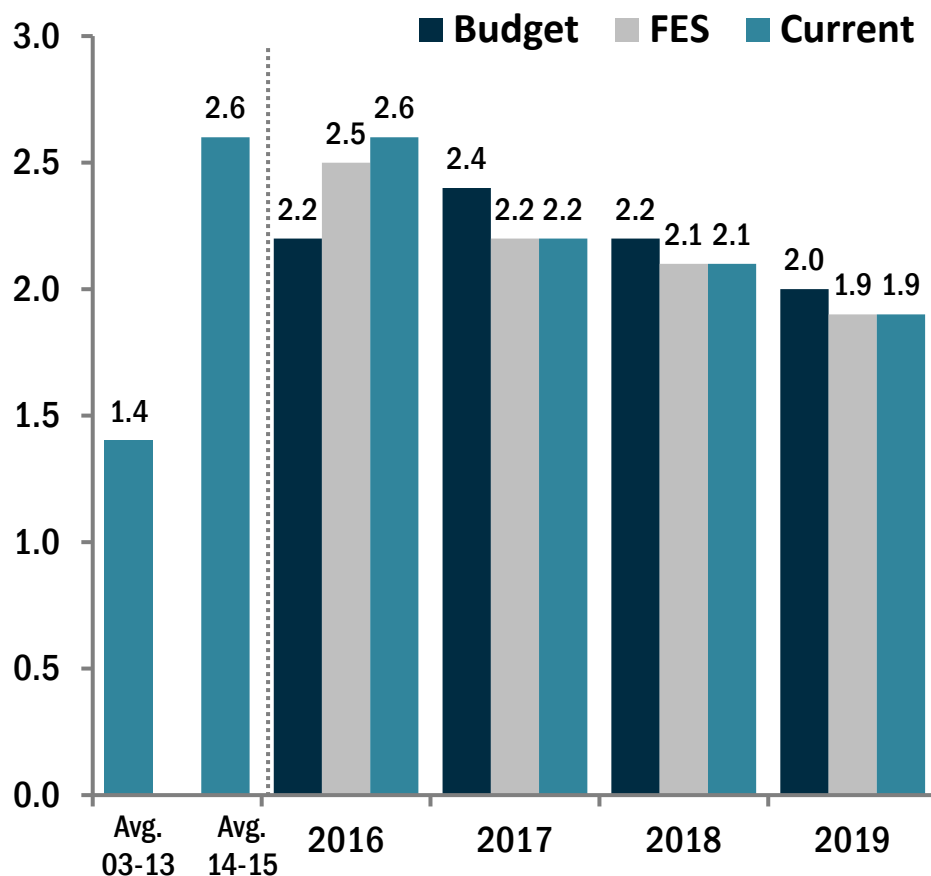
Survey of Forecasters (as of January 16, 2017)

Ontario Real GDP Growth (Per Cent)	2016		2017		2018		2019	
	FES	Current	FES	Current	FES	Current	FES	Current
BMO Capital Markets (Dec)	2.6	▼ 2.5	2.3	2.3	1.7	▲ 2.0	1.7	1.7
Central 1 Credit Union (Dec)	2.3	▲ 2.6	2.2	▲ 2.4	2.4	▲ 2.9	2.8	2.8
Centre for Spatial Economics (Aug)	2.6	2.6	2.3	2.3	1.7	1.7	1.6	1.6
CIBC World Markets (Nov)	2.5	2.5	2.2	▼ 2.1	2.3	2.3		
Conference Board of Canada (Nov)	2.8	▼ 2.7	2.2	▲ 2.3	1.9	1.9	1.9	1.9
Desjardins Group (Dec)	2.6	▲ 2.7	2.3	2.3	2.2	2.2	1.5	▼ 1.3
IHS Global Insight (Jan)	2.5	2.5	2.5	▼ 2.3	2.5	2.5	2.1	▲ 2.4
Laurentian Bank Securities (Aug)	2.7	2.7	2.4	2.4	2.4	2.4		
National Bank (Dec)	2.3	▲ 2.5	2.1	▲ 2.3		2.2		
RBC Financial Group (Dec)	2.7	▼ 2.5	2.4	▼ 2.3		1.9		
Scotiabank Group (Oct)	2.6	2.6	2.3	2.3	2.2	2.2		
TD Bank Financial Group (Dec)	2.7	▼ 2.6	2.0	▲ 2.1	1.7	1.7		
University of Toronto (Oct)	2.7	2.7	2.6	2.6	2.7	2.7	2.2	2.2
Private-Sector Survey Average	2.6	2.6	2.3	2.3	2.2	2.2	2.0	2.0
Planning Assumption	2.5		2.2		2.1		1.9	

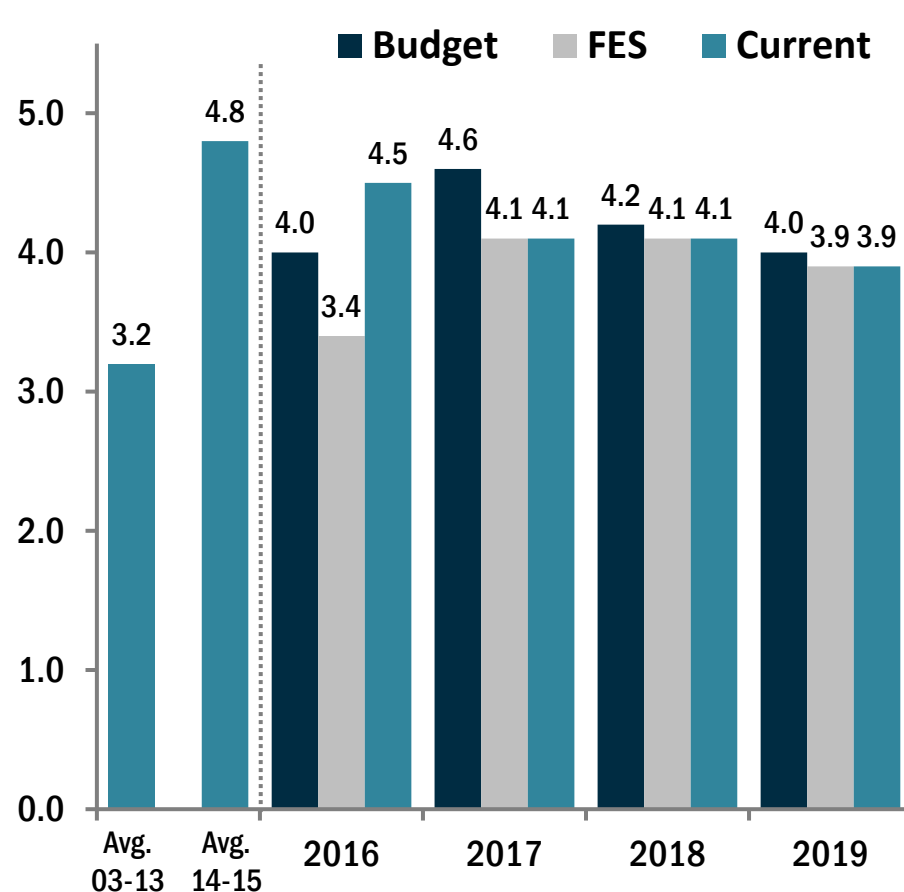
Source: Ontario Ministry of Finance Survey of Forecasters (October and January 2017).

Current Economic Growth Outlook

Real GDP – Planning Assumption
Per cent change



Nominal GDP – Planning Assumption
Per cent change



Source: Statistics Canada and Ontario Ministry of Finance.

Key Forthcoming Economic Information

- Ontario Economic Accounts for 2016Q3 was January 13.
- Canadian Economic Accounts for 2016Q4 to be released on March 2.
 - Ontario Economic Accounts for 2016Q4 to be released by April 13 (45 days after National Accounts release as per FTAA)
- Labour Force Survey: February 10 (for January), and March 3 (for February).
- Bank of Canada will make an interest rate announcement on March 1.

Private Sector Forecasts

- Private Sector Forecasters will continue to update outlooks to reflect ongoing changes in the economic landscape.
 - Forecast updates can be released on an ad hoc basis.

Revenue Context

Ontario economic growth has been supporting significant increases in revenues. Taxation revenues (excluding Electricity Payments in Lieu of Tax) in 2016-17 are estimated to be \$6.0B above 2015-16, an increase of 6.8%.

Stronger economic growth and more optimistic assumptions about future revenue growth result in a current taxation revenue outlook higher than the 2016 Budget by an average of \$2.8B per year over the 2016-17 to 2018-19 period.

Ontario's relatively stronger economic growth than nearly every other province is resulting in a significant deterioration in the outlook for Equalization revenues, which will be \$0.9B lower than assumed in the 2016 Budget forecast in 2017-18. The projection for 2018-19 is currently \$1.5B below the 2016 Budget forecast.

The Ministry revenue outlook is subject to very close scrutiny. The Financial Accountability Office fall forecast was on average \$4.1B lower than the governments Fall Economic Statement forecast over the 2016-17 to 2018-19 period. The FAO assessment of the government's Fall Economic Statement revenue forecast was that "the budget continues to rely on optimistic assumptions for revenue growth".

The current revenue projections are significantly higher than they would be applying the methodologies included in the 2007 and 2011 Pre Election Report on Ontario Finances that were deemed to be reasonable by that Auditor General.

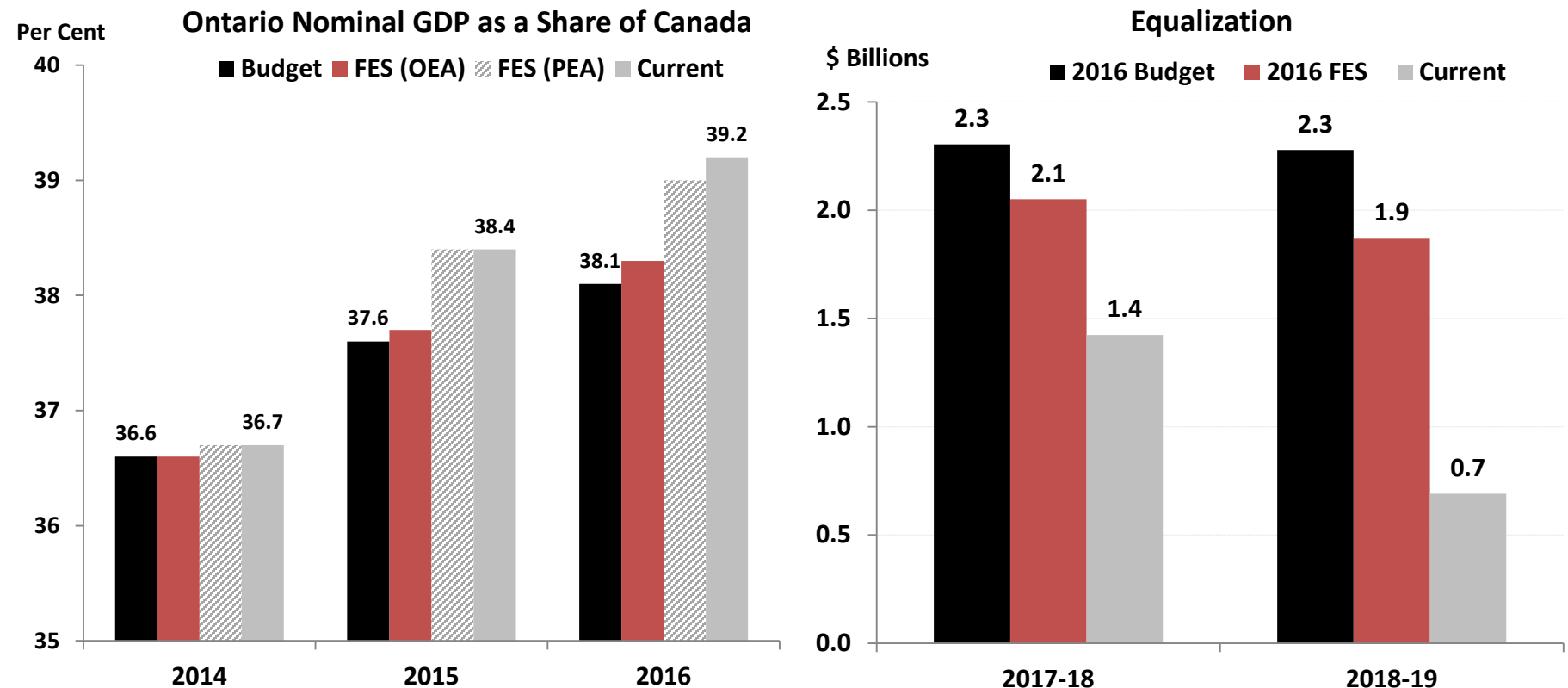
Revenue Update

Revenue updates since December 2016 include:

- A increase in 2016-17 HST, based on December 2016 entitlement estimates provided by DoF.
- A decrease in Equalization in 2018-19 based on details provided by DoF in December 2016.
- Updates for Asset Optimization and Cap and Trade proceed provided by Strategic Investments Branch and MOECC, respectively.

\$ Billions	2015-16	2016-17	2017-18	2018-19
2016 FES Revenue Outlook	128.4	132.7	140.1	144.9
Changes Since 2016 FES				
January 5, 2017 from Dec 15, 2016				
Sub-Total	0.0	0.4	-0.2	-1.0
HST		0.9	0.1	0.1
Equalization			0.1	-0.4
Asset Optimization Target		-0.1	-0.3	-0.4
Cap and Trade Proceeds		-0.5	-0.1	-0.5
Economic Growth			0.1	0.2
December 15, 2016 from 2016 FES				
Sub-Total	0.0	0.3	-0.7	-0.9
Corporate Tax Base (2015)		0.3	0.1	0.1
Slower Economic Growth			-0.1	-0.2
Equalization			-0.7	-0.8
Total Changes	0.0	0.7	-0.9	-1.9
Current Revenue Outlook	128.4	133.4	139.2	143.0

Equalization Revenue Outlook Declines as Ontario's GDP Share Increases



- The update to the Equalization outlook reflects final 2017-18 equalization entitlements announced by DoF in December 2016. Based on further detailed entitlement data provided by DoF, the outlook for 2018-19 is also updated and revised downwards.
- In general, the decline in Ontario's Equalization entitlement outlook, since the 2016 Budget, reflects increases in Ontario's share of Canada-wide nominal GDP.

Asset Optimization Outlook: Changes Since 2016 Budget

- Budget 2016 outlook assumed ~15% of Hydro One shares sold in each of 2017-18 and 2018-19. Based on updates, could imply ~12% sold to the market / ~3% sold to First Nations and Métis Nation of Ontario in 17-18, ~10% sold to the market in 2018-19 leaving 5% of shares retained as buffer following the Expert Investment Advisory Committee recommendation.
- The following provides a preliminary, illustrative (based on a recent low Hydro One share price) update summary of revisions to the asset optimization outlook since the 2016 Budget, including the secondary sale in April 2016 at a higher than projected gain, but increased forgone net income. Given recent volatility in share prices and interest rates, further assessment will be needed closer to a transaction date.
- 2016-17:** Tracking slightly lower than plan, driven by push in expected timing for Seaton land sales to future fiscal years and higher than expected book value of Hydro One Brampton reducing gain on sale, partially offset by the higher LCBO gain.
 - The outlook also assumes ~\$70M gain from Hydro One share sales to OPG is not recognized in 2016-17.
- 2017-18:** Tracking lower than plan, primarily due to lower forecasted benefits from Hydro One shares sales driven by:
 - lower potential market prices for Hydro One shares, based on market prices in Nov. / Dec. 2016 -- recent reduction from a high of \$26.59/share in July 2016 to a low of \$22.65/share in November 2016
 - agreement-in-principle with COO to sell Hydro One shares @ \$18/share / provide up to \$45M in 2017-18 in seed capital
 - a potential similar agreement with the Métis Nation of Ontario
 - higher forecasted carrying value (book value) of Hydro One shares, due to the higher deferred tax benefit reported in 2015, which negatively affects projected future gains on sale
- 2018-19:** Lower than plan, primarily due to Hydro One shares, driven by the market price and book value issues noted above, as well as a lower amount of shares sold than planned at time of Budget (~15% vs. ~10%).

\$ Millions	2016-17	2017-18	2018-19
2016 Budget AO Outlook	685	695	170
<i>Changes since 2016 Budget</i>			
Hydro One	20	(340)**	(415)**
Hydro One Brampton	(70)	(5)	(5)
LCBO Head Office Lands	50	-	-
OPG Headquarters and Parking Garage	-	(5)	-
Seaton Lands	(70)	40	-
Lakeview Lands	-	(20)	-
Total AO Variance	(75)	(325)	(420)
Revised AO Outlook*	610	370	(245)

*Hydro One impacts include the following assumed IOD savings: \$115 M in 2016-17 / \$164 M in 2017-18 / \$233M in 2018-19 that are subject to potential reporting reclassification. Numbers are rounded to the nearest \$5M and may not add due to rounding. All asset optimization values are subject to market conditions, and with increased uncertainty in out years.

**Note that the amounts include an additional \$29M in transaction costs in 2017-18 and \$15M in transaction costs in 2018-19 (pro-rated) to arrive at the assumed \$70M in annual transaction costs forecasted by Energy for each fiscal year in its PRRT submission.

Cap and Trade Proceeds

\$ Billions	2016-17	2017-18	2018-19
2016 Budget Cap & Trade Revenue Outlook	0.5	1.9	1.8
2017 PRRT Submission		1.8	1.4
Change	(0.5)	(0.1)	(0.5)

- The current Cap and Trade revisions are based on MOECC's current 2017 PRRT submission
- These estimates are lower than reported in the May 2016 in-year Treasury Board/Management Board of Cabinet (TB/MBC) submission
- The main reason for the change is a more cautious assumption on allowances sold.
 - The submission assumes 80% of the allowances are sold, based on the average proportion sold in recent joint Western Climate Initiative auctions (November 2014 – November 2016).
 - The 2016 Budget assumed 100% of allowances sold.
- The revised outlook also reflects:
 - Exclusion of proceeds associated with future vintage allowances (to properly reflect accounting treatment requirements. Previous policy direction from Cabinet was to sell future vintage allowances in advanced auctions (i.e. sell 10% of 2020 allowances in the 2017 auction, 10% of 2021 auctioned in 2018, etc.)
 - Updated exchange rates and carbon price forecasts.
 - Assumption that proceeds from the first auction in March 2017 will be recognized in fiscal year 2017-18. Four subsequent auctions will be held in 2017-18 and revenues reflected in that year.

Key Revenue Assumptions

\$ Millions	2016-17	2017-18	2018-19
2016 FES Revenue Tools			
CIT Revenue Yield	300	460	670
Unconditional Federal Funding: Infrastructure		500	1,000
Government Business Enterprises		200	200
Other NTR (recoveries)	100	100	100
Other Unconditional Federal Funding			
Home Care		250	231
Jobs and Training		77	77
	400	1,587	2,278

- The current revenue outlook maintains the 2016 FES revenue tools with information forthcoming
- The current revenue outlook also maintains 2016 FES assumptions with respect to Federal funding for homecare and training

Key Revenue Information To Come

- 2017 Document economic forecast
- Finalization of 2015 and prior year PIT and CIT tax assessments
- Provincially-administered taxation revenue collections, notably LTT
- Federal Budget
- Government Business Enterprise Net Income projections
- Line Ministry revenue updates and agency consolidations

Other Key Revenue Risks

- Unconditional new Federal transfers assumed in FES and current fiscal architecture:
 - Infrastructure (\$0.5B in 2017-18, \$1.0B in 2018-19)
 - Home Care (\$0.2B per year)
 - Training (\$0.1B per year)
- Full carry forward of higher 2015 PIT
- Strong projected growth in CIT
- Cap & Trade auction results
- Equalization
- HST LTT related to the housing market

APPENDICIES



Ontario Forecast Compared to Budget

Preliminary Doc 2017 Outlook

(Per cent)	2014	2015	2016p	2017p	2018p	2019p
Real GDP Growth	2.7	2.5	2.6	2.2	2.1	1.9
<i>(change from FES 2016)</i>	-	-	0.1	-	-	-
Nominal GDP Growth	4.7	4.9	4.5	4.1	4.1	3.9
<i>(change from FES 2016)</i>	-	-	1.1	-	-	-
CPI Inflation	2.4	1.2	1.8	2.1	2.0	2.0
<i>(change from FES 2016)</i>	-	-	-0.1	0.1	-	-
Employment Growth	0.8	0.7	1.1	1.2	1.2	1.1
<i>(change from FES 2016)</i>	-	-	0.1	-	-	-
Unemployment Rate	7.3	6.8	6.5	6.5	6.4	6.2
<i>(change from FES 2016)</i>	-	-	-0.1	-	-	-

p = projection

Sources: Statistics Canada, Ontario Ministry of Finance

Revenue Outlook Variances

	2016 Budget						2016 FES						Current (January 2017)					
\$ Billions	2015-16	2016-17	2017-18	2018-19	Avg. Growth		2015-16	2016-17	2017-18	2018-19	Avg. Growth		2015-16	2016-17	2017-18	2018-19	Avg. Growth	
Total Taxation Revenues	90.8	91.8	95.9	100.2	3.4		91.8	93.8	98.1	103.0	3.9		91.8	95.1	98.3	103.1	3.9	
Gov't of Canada Transfers	22.9	24.6	25.8	26.6	5.1		22.9	24.5	25.7	26.5	5.0		22.9	24.5	25.1	25.3	3.5	
Gov't Business Enterprises	4.3	5.0	5.3	5.7	9.5		4.9	5.2	5.5	5.9	6.4		4.9	5.2	5.5	5.9	6.4	
Other Non-Tax Revenue	8.6	9.1	10.6	9.4	3.3		8.8	9.2	10.7	9.5	2.8		8.8	8.6	10.3	8.7	-0.5	
Total Revenues	126.5	130.6	137.7	141.9	3.9		128.4	132.7	140.1	144.9	4.1		128.4	133.4	139.2	143.0	3.6	
Changes From 2016 Budget																		
	Change from 2016 Budget						Change from 2016 Budget						Change from 2016 Budget					
	2015-16	2016-17	2017-18	2018-19			2015-16	2016-17	2017-18	2018-19			2015-16	2016-17	2017-18	2018-19		
Total Taxation Revenues	1.1	2.0	2.1	2.8			1.1	2.0	2.1	2.8			1.1	3.3	2.3	2.9		
Gov't of Canada Transfers	0.0	-0.2	0.0	-0.1			0.0	-0.2	0.0	-0.1			0.0	-0.2	-0.7	-1.3		
Gov't Business Enterprises	0.6	0.2	0.2	0.2			0.6	0.2	0.2	0.2			0.6	0.2	0.2	0.2		
Other Non-Tax Revenue	0.2	0.1	0.1	0.1			0.2	0.1	0.1	0.1			0.2	-0.5	-0.4	-0.8		
Total Revenues	1.8	2.1	2.4	3.0			1.8	2.1	2.4	3.0			1.8	2.8	1.5	1.0		
Changes From 2016 FES																		
	Change from 2016 FES						Change from 2016 FES						Change from 2016 FES					
	2015-16	2016-17	2017-18	2018-19			2015-16	2016-17	2017-18	2018-19			2015-16	2016-17	2017-18	2018-19		
Total Taxation Revenues	-	1.2	0.2	0.2			-	1.2	0.2	0.2			-	1.2	0.2	0.2		
Gov't of Canada Transfers	-	0.0	-0.6	-1.2			-	0.0	-0.6	-1.2			-	0.0	-0.6	-1.2		
Gov't Business Enterprises	-	0.0	0.0	0.0			-	0.0	0.0	0.0			-	0.0	0.0	0.0		
Other Non-Tax Revenue	-	-0.6	-0.4	-0.9			-	-0.6	-0.4	-0.9			-	-0.6	-0.4	-0.9		
Total Revenues	-	0.7	-0.9	-1.9			-	0.7	-0.9	-1.9			-	0.7	-0.9	-1.9		

Potential Tax Revenue Options for Document 2017

January 17, 2017

Estimates are illustrative and are still to be finalized

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SCENARIO	PAGE
Potential Options	
Suspend Indexation of the Personal Income Tax System	4
Convert the Tiered Ontario Health Premium to a 1% Tax	6
Personal Income Tax Simplification	9
Insurance Premiums Tax	13
Increase Education Property Tax Revenue	15
Other Options for Consideration	
General Corporate Income Tax Rate Option	18
Corporate Income Tax Credits – Across-the-Board Option	19
Eliminate HST Point-of-Sale Rebates and Introduce Mitigation Through Tax Credits or Targeted Support	20
Additional Land Transfer Tax on “Foreign Entities”	22
Introduce a Tax on Sugar Sweetened Beverages	23
Eliminate Pension Income Credit	25
Tobacco Tax	26
Alcohol Options	28
Appendix A: Federal Related Options	
Introduce a Charge on Cannabis	31
Sharing Special Federal-only Taxes with Provinces	33
Reform of Corporate Meals and Entertainment Tax Allowances	34
Appendix B: Background Statistics	
Ontario Taxation Revenues to Nominal GDP Ratio	35
Federal and Ontario Tax Burdens on Households	36
Steps in Calculating Ontario’s Personal Income Tax	37
Personal Income Tax – Federal Ontario Comparison	38
Impact on METRS	39
Personal Income Tax Provincial Comparison	40
Corporate Income Tax Rates - Federal Provincial Comparison	42
Insurance Premium Tax - Federal Provincial Comparison	43
CIT Credit – Across-the-Board	44

Overview

- The options presented are intended for Document 2017. Tax Policy Division will return with separate briefings on each as part of the Document process.
- Significant revenue means looking at the biggest taxes (Personal Income Tax (PIT)/ Corporate Taxes (CIT)) or packages of tax measures.
 - A one point increase in Harmonized Sales Tax (HST) (not in this deck) would raise \$3 billion.
 - Tax increases may be more effective if packaged with spending restraint measures.
 - At the 2016 Ontario Economic Summit in November, Premier Wynne committed to not increasing taxes on middle-income earners.
- Typically tax changes are made in accordance with the following objectives:
 - Fairness –make taxes more progressive or address an existing inequity;
 - Sustainability – permanent tax increases can help sustain funding for spending programs;
 - Affecting behaviour – tax changes could encourage healthy consumer behaviour and/or limit tax avoidance opportunities ; and
 - Simplicity of administration – tax changes can be done without introducing new administrative costs or burdens.
- Most measures would require an amendment to the *Taxpayer Protection Act* to be passed before they can be introduced without a referendum authorizing the measure.
- Design features of options may require confirmation before finalizing. Design decisions could change fiscal impacts.
- Under the Tax Collection Agreement, personal income tax measures which modify rates need to be made effective January 1st. The CRA controls withholdings changes, and would likely make adjustments in July if legislation is introduced in the spring.
- Tax measures may be combined, but fiscal impacts may not be additive.

Suspend Indexation of Personal Income Tax Brackets and Rates for One Year in 2017

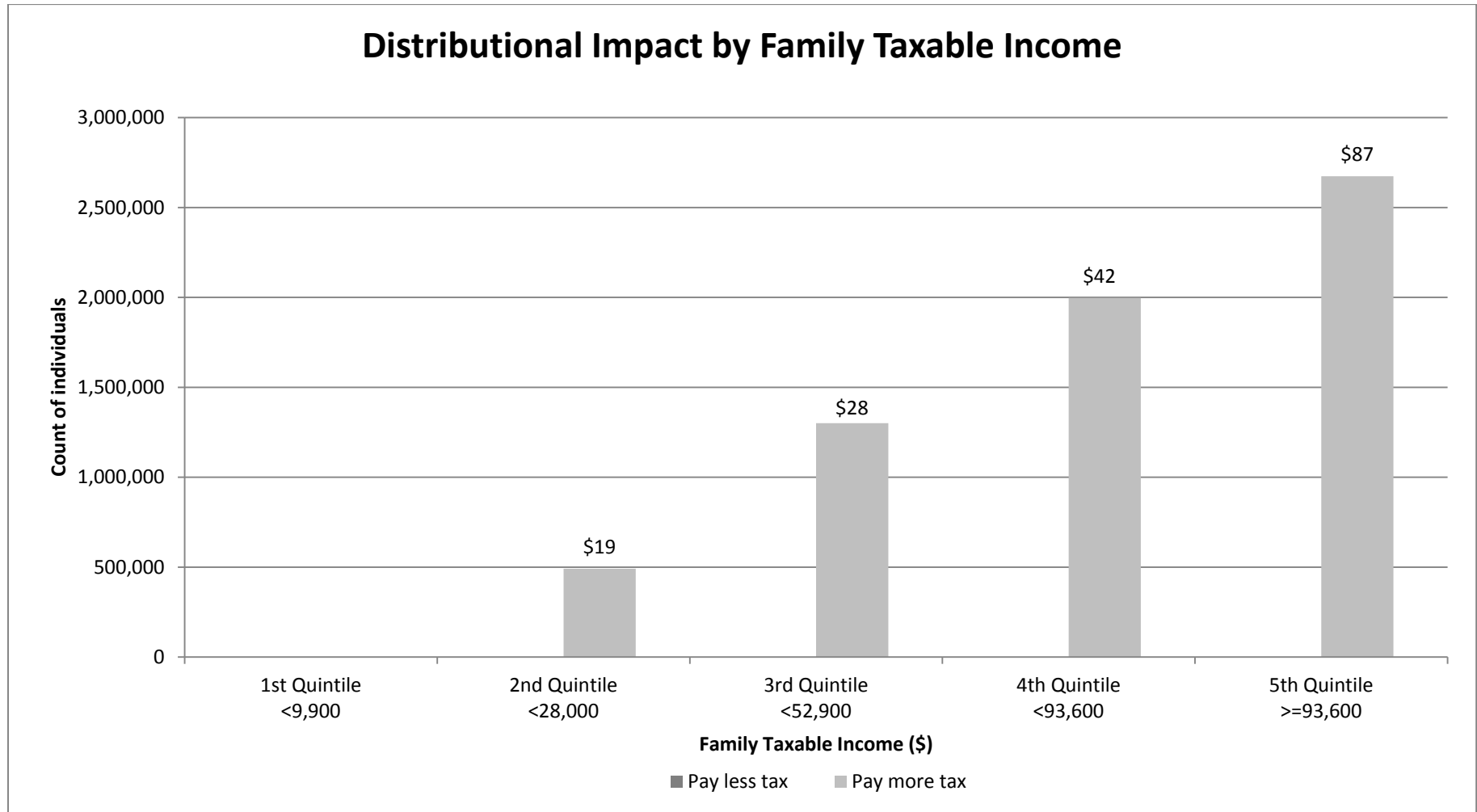
Suspending indexation in 2017 freezes tax brackets and non-refundable tax credit (NRTC) amounts at their 2016 levels. The impact of suspending indexation would be proportionally spread out, with each tax payer contributing a relatively small amount towards improving Ontario's fiscal situation.

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Suspend indexation for 2017*	90	370	390	415	440

Considerations

- Most Ontario PIT brackets, non-refundable tax credits, refundable tax credits and other PIT elements are indexed using the Ontario Consumer Price Index (CPI) to account for inflation.
- Ontario's two top taxable income thresholds (\$150,000 and \$220,000) are not indexed.
- The federal government limited indexation to inflation over 3% from 1986 to 2000 to control national debt. From 1992 to 2000, there was effectively no federal indexation, as inflation was less than 3%.
- The cost of suspending indexation would be proportionally spread among taxpayers.
- The revenue raised from suspending indexation would be compounded if suspension continues for multiple years.
- Nova Scotia and Prince Edward Island are the only provinces that do not index their income tax brackets.
 - o Manitoba's 2016 budget announced that indexation of their tax brackets and Basic Personal Amount would begin in the 2017 taxation year.

Suspend Indexation of Personal Income Tax Brackets and Rates for One Year in 2017



* Values above bars represent the average tax impact on individuals in each family taxable income quintile.

* The chart shows the tax impact for singles and couples broken down by the taxable income of the single individual or couple. The net impact for a couple is divided between the two individuals. For example, if one member of a couple owes \$10 less tax and the other member owes \$20 more, then both members are counted as individuals in families that pay more tax, with each individual paying \$5 more.

Convert the Tiered Ontario Health Premium to a 1% Tax

Makes the Ontario Health Premium (OHP) simpler and more proportional to income while maintaining it as a separate, visible calculation.

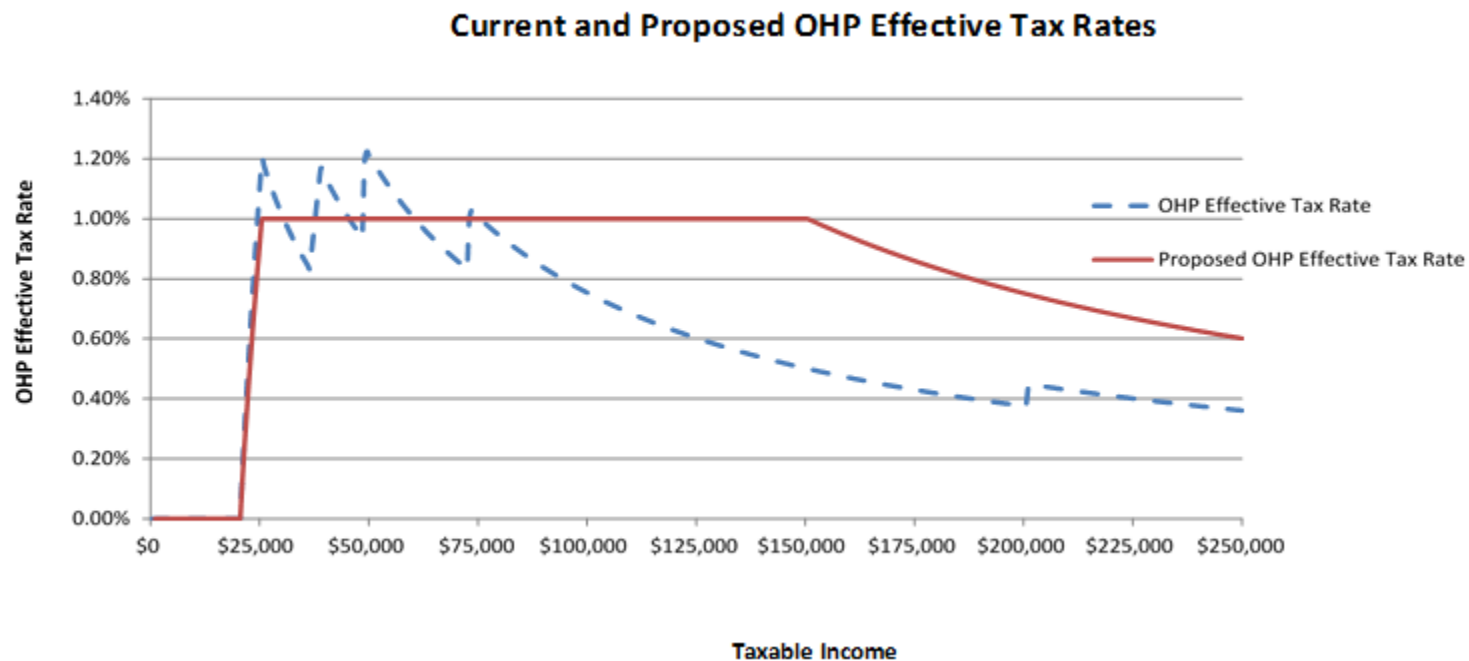
Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Replace the tiered structure of the OHP with a tax calculated as 1% of taxable income, capped at \$1,500 of OHP	120	480	505	530	560

Considerations

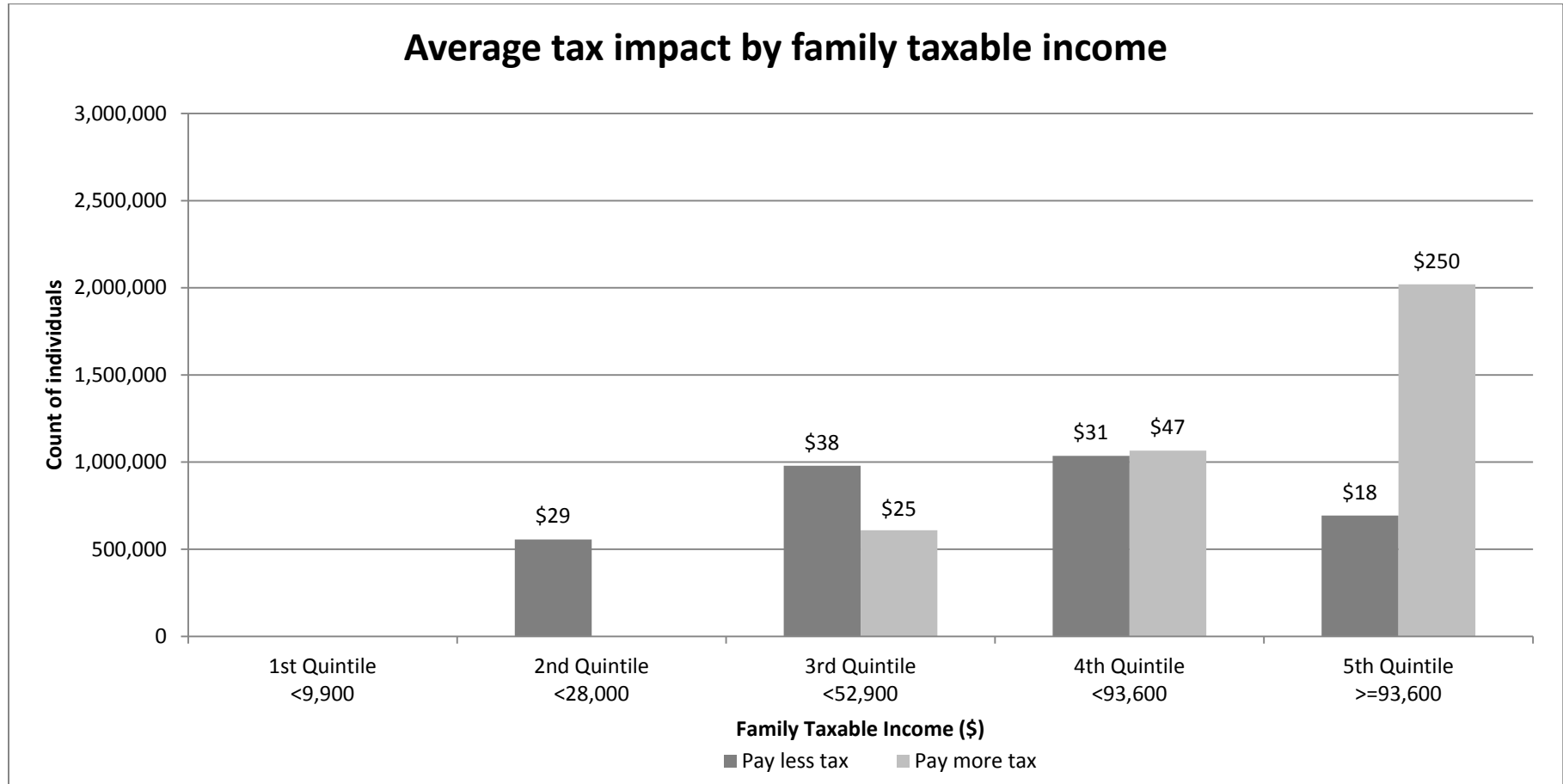
- The OHP phases in starting at \$20,000 of taxable income and has phased-in flat amounts that apply over broad income ranges. It is capped at \$900 starting at \$200,600 of taxable income.
- The replacement tax would be phased in from \$20,000 to \$25,000 then calculated as 1% of taxable income from \$25,000 to \$150,000, and capped at \$1,500 starting at \$150,000 of taxable income.
 - o This would smooth the erratic effective OHP rates caused by the current premium structure, would make the tax less regressive and would not raise Ontario's top marginal tax rate.
- About 3.7 million people would pay \$155 more on average, and about 3.3 million people would pay \$30 less on average.
- Alternative: If the replacement began instead at \$25,000 of taxable income and were capped at \$1,200 (corresponding to what OHP parameters would have been if indexed since 2004), this option would raise about \$200 million annually.

Convert the Tiered Ontario Health Premium to a 1% Tax - Comparison

- To smooth the OHP's erratic effective rates, while also maintaining the visibility of health care costs, the government could replace the OHP structure with a proportionate tax.
 - o Tax filers with taxable income below \$20,000 would continue to pay no OHP
 - o The OHP would phase in at a rate of 5 percent of taxable income over \$20,000
 - o It would apply to 1% of all taxable income from \$25,000 to \$150,000 of taxable income, and be capped at a maximum premium of \$1,500.



Convert the Tiered Ontario Health Premium to a 1% Tax - Distribution



* Values above bars represent the average tax impact on individuals in each family taxable income quintile.

* The chart shows the tax impact for singles and couples broken down by the taxable income of the single individual or couple. The net impact for a couple is divided between the two individuals. For example, if one member of a couple owes \$10 less tax and the other member owes \$20 more, then both members are counted as individuals in families that pay more tax, with each individual paying \$5 more.

Personal Income Tax Simplification

Budget 2016 committed to examining ways to simplify PIT, including the Ontario surtax and Ontario Tax Reduction (OTR), so that Ontarians can better understand their effective tax rates. Eliminating the Ontario surtax would modernize Ontario's PIT and reduce interactions that enhance the value of NRTC's for surtax payers.

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Option I: (a) Integrate the surtax into brackets and rates	60	250	265	285	305
Option I: (b) Integrate the surtax into brackets and rates and suspend indexation in 2017	150	615	660	700	745
Option I: (c) Integrate the surtax into brackets and rates and suspend indexation in 2017 and replace the tiered structure of the OHP with a tax calculated as 1% of taxable income, capped at \$1,500 of OHP	270	1,095	1,165	1,245	1,345

	Current Statutory Rate Structure		Current Effective Rate Structure		Proposed Rate Structure	
1 st bracket	\$0	5.05%	\$0	5.05%	\$0	5.05%
2 nd bracket	\$42,201	9.15%	\$42,201	9.15%	\$42,200	9.15%
3 rd bracket	\$84,404	11.16%	\$76,300	10.98%	\$71,200	11.00%
4 th bracket	\$150,000	12.16%	\$84,404	13.39%	\$84,500	13.50%
5 th bracket	\$220,000	13.16%	\$89,200	17.41%	\$91,500	17.50%
6 th bracket			\$150,000	18.97%	\$150,000	19.00%
7 th bracket			\$220,000	20.53%	\$220,000	20.53%

- Ontario's surtax rate is applied on personal income tax determined by statutory rates, after eligible NRTC's have been calculated. As a result, Ontarians may not be aware of the impact of the surtax on their tax liability.
- The current effective rate structure, seen above, reflects statutory rates combined with the surtax that applies to a typical individual with only employment income. The surtax would apply at higher levels of taxable income for individuals who are eligible for many NRTC's.

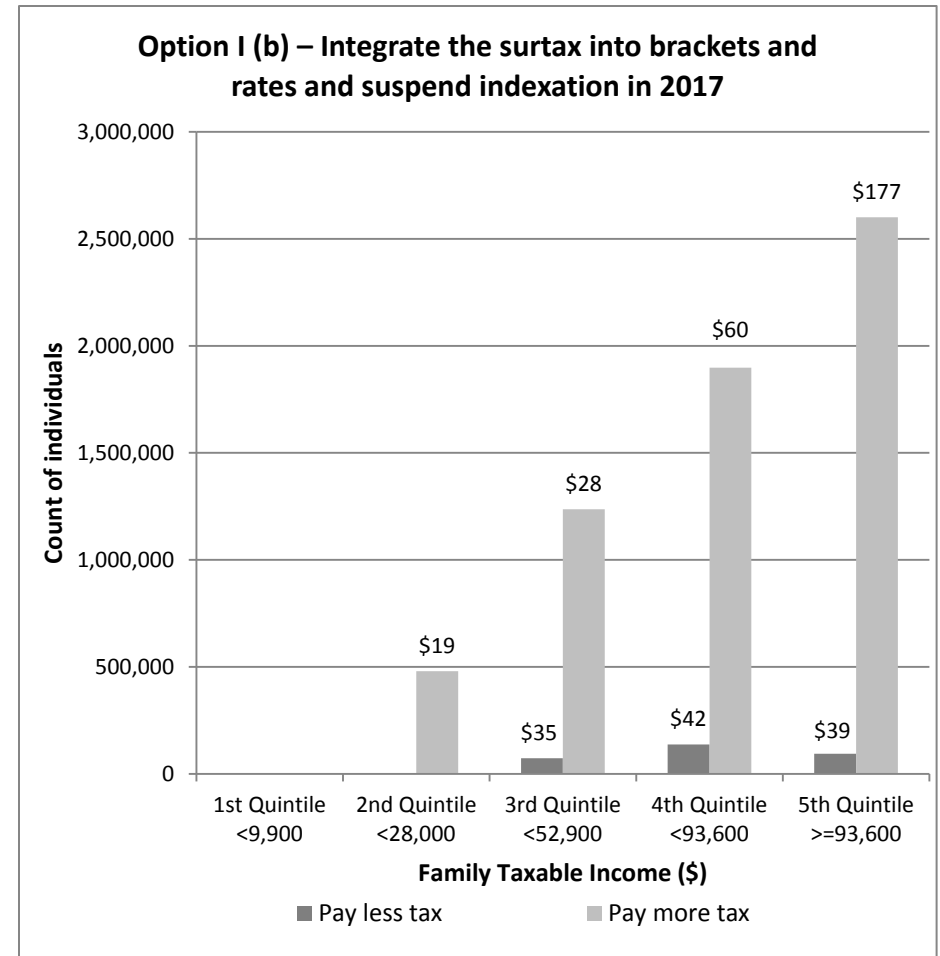
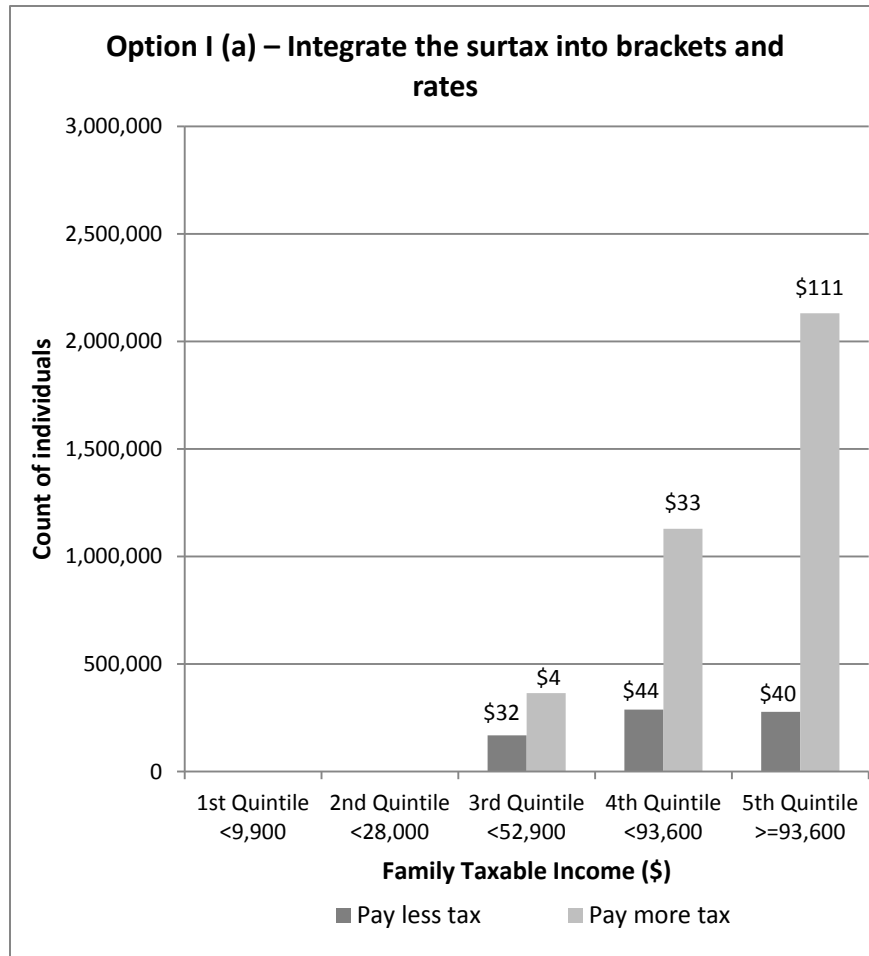
PIT Simplification (continued)

Considerations

- Prior to 2000, Ontario PIT was calculated as a percentage of federal PIT. Ontario introduced the OTR in 1975 and the surtax in 1986 to increase progressivity. Ontario gained control over tax brackets and rates in 2000, and control over NRTCs in 2001. Although no longer required, the surtax was maintained.
- The charitable donations tax credit (CDTC) currently provides a 11.16% NRTC for donations over \$200. This rate was set to mirror Ontario's highest PIT rate, prior to 2012, and has not been changed to reflect new top statutory rates.
- The interaction of the surtax provides an effective CDTC rate of 17.41% for higher-income surtax payers – who make up the majority of the beneficiaries of the credit.
- Fiscal impacts for the proposed rate structure assume that the top charitable donations tax credit rate is set at 13.5% - higher than the current statutory and lower than the current effective rate. Increasing the CDTC rate to match the effective rate would decrease the revenue impact from the options.
- *Impacts:*
 - o Option I (a): 3.6 million people would pay \$75 more on average, and 0.8 million people would pay \$40 less.
 - o Option I (b): 6.2 million people would pay \$100 more on average, and 0.3 million people would pay \$40 less.
 - o Option I (c): 4.9 million people would pay \$230 more on average, and 2.3 million people would pay \$25 less.
- The revenue from Option I (a) arises primarily from eliminating the additional value surtax payers receive for NRTCs.
- Any simplification options would change the distribution of individual tax burdens.
 - o Some people who lose the enhanced value of NRTCs may be seniors, have high medical expenses or a disability for which an NRTC is provided (for example, the disability amount or the medical expense tax credit).

PIT Simplification (continued)

Distributional Impact by Family Taxable Income

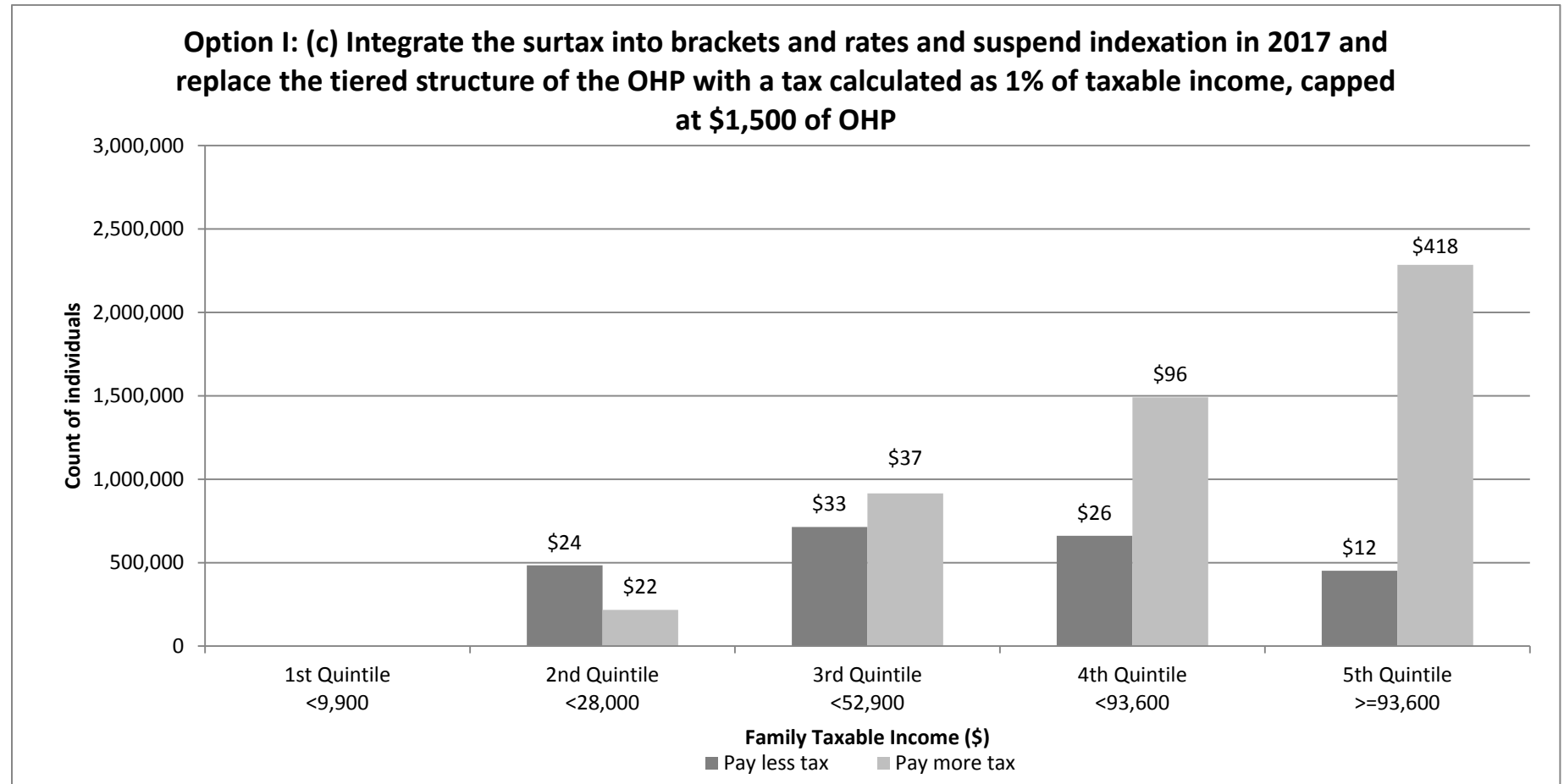


* Values above bars represent the average tax impact on individuals in each family taxable income quintile.

* The chart shows the tax impact for singles and couples broken down by the taxable income of the single individual or couple. The net impact for a couple is divided between the two individuals. For example, if one member of a couple owes \$10 less tax and the other member owes \$20 more, then both members are counted as individuals in families that pay more tax, with each individual paying \$5 more.

PIT Simplification (continued)

Distributional Impact by Family Taxable Income



* Values above bars represent the average tax impact on individuals in each family taxable income quintile.

* The chart shows the tax impact for singles and couples broken down by the taxable income of the single individual or couple. The net impact for a couple is divided between the two individuals. For example, if one member of a couple owes \$10 less tax and the other member owes \$20 more, then both members are counted as individuals in families that pay more tax, with each individual paying \$5 more.

Insurance Premiums Tax

At 2% Ontario's insurance premiums tax (IPT) on life and health insurance is lower than Alberta, Saskatchewan, Quebec, PEI, Nova Scotia and Newfoundland. Ontario's IPT on casualty and property insurance is lower than most other provinces.

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Increase IPT Rates (1 Percentage Point) *Excludes RST on insurance premiums Increase IPT rates on all forms of insurance (except automobile insurance) by 1 percentage point.	-	270	380	395	410

* Estimates based on April 1, 2017 announcement and July 1, 2017 effective date, since industry would require lead time between announcement and effective date.

Considerations

- IPT is a tax on insurance premiums collected and paid to the province by insurance companies in respect of people living in Ontario and property situated in Ontario.
 - IPT rates are calculated on the gross premiums payable under life, accident and sickness, casualty and property contracts.
 - IPT rates are currently 2% for Life, Accident and Sickness, 3% for Casualty, and 3.5% for Property.
- In addition to the IPT, which is a corporate tax, Ontario applies 8% Retail Sales Tax to certain insurance premiums (including property insurance, group life and health insurance, but excluding individual life and health insurance and auto insurance). Quebec (9% QST) and Manitoba (8% RST) also apply provincial sales tax to insurance premiums in addition to the IPT.
 - While the HST does not apply to insurance premiums, insurance companies generally do not receive input tax credits.
- Based on all types of insurance, IPT revenue is approximately \$1.2 billion annually (or 10% of corporate income tax revenue) and is paid by about 1,200 companies.

Insurance Premiums Tax (continued)

- Ontario currently has the lowest IPT rates for casualty insurance and life, accident and sickness insurance and the 2nd lowest IPT rate on property insurance of all the provinces.
 - If Ontario increased its IPT rates by 1 percentage point, compared to other provinces:
 - Life, Accident, and Sickness IPT rates would move from the lowest to 4th lowest; Casualty IPT rates would move from the lowest to 5th lowest; and, Property IPT rates would move from 2nd lowest to 6th lowest.
- Alberta and Newfoundland recently increased their IPT rates by 1 percentage point.
 - Alberta announced the IPT rate increase on March 26, 2015 (2015 Budget), effective April 1, 2016
 - Newfoundland announced the IPT rate increase on April 14, 2016 (2016 Budget), effective July 1, 2016.
- All of Ontario's 5 major banks own separate insurance companies that offer some type of insurance to consumers.
- Most U.S. states impose "retaliatory taxes" on insurance premiums for "foreign" insurers operating in the state's jurisdiction, but incorporated out of state. The retaliatory tax is computed as the difference between a state's IPT, licenses and other fees (in aggregate) and that of the jurisdiction in which the insurance company is incorporated.
 - In 1976, Ontario increased its IPT rates however the change was reversed for life and health premiums in the 1978 Budget because of retaliatory taxes applied by U.S. States to Ontario-based insurance companies operating in the U.S.
 - Unlike other provinces, Ontario has a number of life insurers with U.S. operations which could be subject to additional retaliatory taxes on their U.S. business.
- Automobile insurance has been excluded from this option to conform to Ontario's commitment to lower the cost of auto insurance for Ontario's nearly ten million drivers.
 - Insurance companies cannot cross subsidize the cost of higher IPT rates on life, health and property insurance by increasing auto insurance premiums because the Financial Services Commission of Ontario (FSCO) approves rates that insurers can charge for private passenger auto insurance.
- Increased cost of the IPT to insurance companies would likely be passed on to consumers.
- Stakeholder organizations would likely oppose any increase to the IPT (e.g., Canadian Life and Health Insurance Association, Insurance Bureau of Canada, Insurance Brokers Association of Ontario).
- Would require legislative amendments to the *Corporations Tax Act* and the *Taxpayer Protection Act*, 1999.
- The potential impact of this option on the Ontario insurance industry is uncertain since the impact on specific insurance companies would be based on several factors such as the location of operations, corporate structure and type of insurance products offered.
 - In general, IPT revenue is estimated to change from approximately \$1.2 billion to \$1.5 billion annually.

Increase Education Property Tax Revenue

Ensure the integrity of Education Property Tax revenues by building on 2016 Budget technical changes that included three years of 1% EPT revenue increases.

Preliminary Cumulative Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Increase Education Property Tax (EPT) Revenue adjustment to 2% from 1%	25	85	180	310	460

* Fiscal estimates to be updated with 2016 Assessed Values

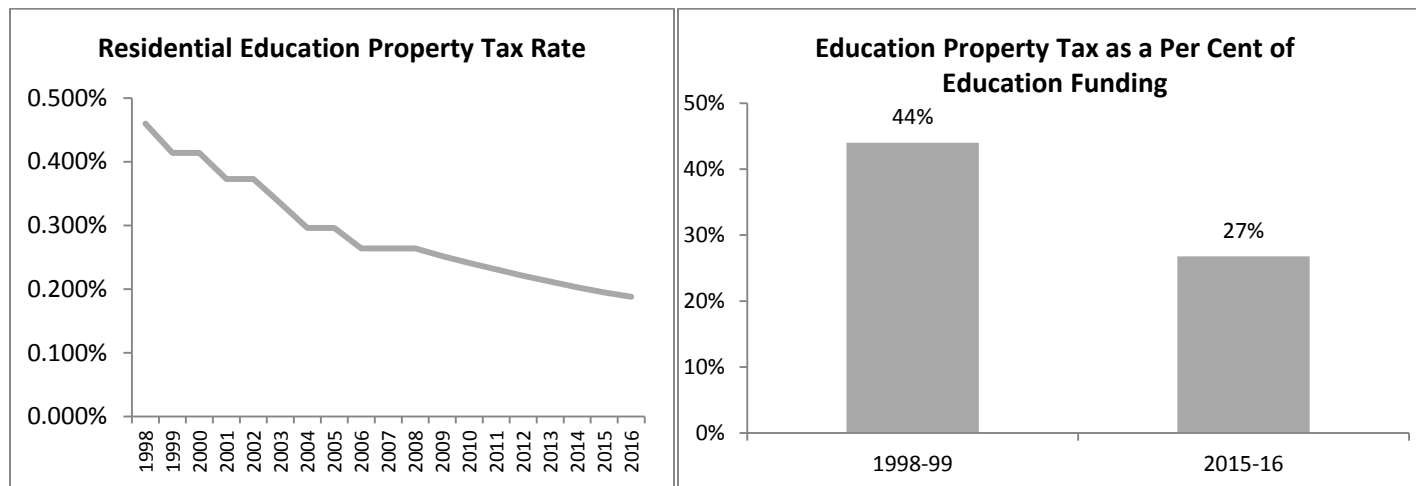
Considerations

- The *2016 Budget* announced technical adjustments to the provincially prescribed property tax rate calculation used to set annual municipal and EPT rates.
 - This technical adjustment included a 1% EPT revenue increase for 3 years (starting in 2016) to account for current and historical in-year changes such as assessment appeal losses.
- The 1% adjustment was successfully implemented in 2016 with virtually no stakeholder reaction from municipalities or taxpayers. As a result, there may be an opportunity to adjust EPT rate setting policy going forward.
- Under the proposed option, the planned 2017 1% annual technical adjustment would be increased to 2%. Continued annual 2% increases would raise more than \$450M by 2020-21.
 - By contrast, freezing EPT at the 2016 rates could raise more than \$1.2 billion by 2020-21, which would be equivalent to an annual EPT revenue increase of approximately 5%.
- Given that EPT rates would continue to decrease under this proposal, this option could be implemented without amending the Taxpayer Protection Act.
 - However, there is a risk that larger EPT increases could be criticized as a tax increase
 - While the impact on Ontario homeowners would vary based on property value, the average impact in 2017 would be \$7, or approximately \$2 for every \$100,000 of assessed value.
- Consideration would have to be given to how this option would be communicated, as the previous change was designed as a temporary technical adjustment.

Increase Education Property Tax Revenue (cont'd)

Context:

- Since 1998, EPT rates have been reset annually to offset reassessment impacts.
 - For example, residential EPT rates have been reduced by 55% since 1998, from 0.460% to 0.188% in 2016.
- As a result, the share of education expenditures funded by property taxes has decreased from nearly 44% in 1998-99 to 27% currently.
- Therefore, it has been necessary for provincial transfers to school boards to offset the decline in the share of education expenditures funded by property taxes.
- If EPT had been maintained at 44% of education funding, provincial EPT revenues would have been \$4.2B higher annually.
- This option is consistent with EPT revenue policies used in other jurisdictions, such as British Columbia, where the school tax rate is reset annually to allow revenues to increase by the rate of inflation.
 - There has been minimal criticism of the province's policy for school tax rate setting
- Revenue projections are based on estimated reassessment impacts. Beyond 2021, there is an increased risk that revenue projections would be affected by lower than anticipated reassessment impacts.



OTHER OPTIONS FOR CONSIDERATION

General Corporate Income Tax (CIT) Rate Options

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Increase Ontario's general CIT rate of 11.5% to 12%	-	350	410	420	430
Option does not assume an increase to the CIT rates for manufacturers and processors (10%) and small businesses (4.5%).					

*Estimates based on April 1, 2017 effective date.

**The Dividend Tax Credit (DTC) on eligible dividends is currently 10%. Increasing the DTC rate to match a CIT rate increase would reduce revenue by approximately \$60M a year.

Considerations

- Ontario's general corporate income tax (CIT) rate was reduced in stages from 14 per cent in 2009 to 11.5 per cent in 2011.
 - The general CIT rate is currently the 2nd lowest in Canada (See Appendix for Provincial Rates).
- As part of the 2009 Tax Plan for Jobs and Growth, the general CIT rate was scheduled to be reduced to 10% by July 1, 2013.
 - However, in the 2012 Ontario Budget, the government announced that the general CIT rate would be frozen at 11.5%, and when Ontario returns to a balanced budget in 2017-18, the CIT rate reductions would resume and the general CIT rate would continue to fall.
- Alberta, New Brunswick and Newfoundland recently increased their general CIT rate.
 - Quebec reduced its general CIT rate from 11.9% to 11.8% effective January 1, 2017 (similar reductions are planned for the next three years to move to 11.5%).
- Slightly increases the difference between the general CIT rate and the CIT rate for M&P (from 1.5 to 2 percentage points) and the CIT rate for small businesses (from 7 to 7.5 percentage points). This increase in preference towards small business and M&P activity would make the corporate income tax system less neutral than currently exists.
- Ontario's marginal effective tax rate (METR) would increase slightly, reducing Ontario's tax competitiveness on new business investment.
- Under proposed U.S. tax reforms, the U.S. may reduce their statutory federal CIT rate, while broadening the corporate income tax base (i.e. eliminating certain tax deductions).
- Some taxpayers would expect the Dividend Tax Credit rate to be increased in parallel.
 - Alberta, New Brunswick and Newfoundland did not increase their DTC rates when they increased their CIT rates.

Corporate Income Tax Credits - Across-the-Board (ATB) Option

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Across-the-Board Reduction to Business Tax Credits A 20% reduction could be applied to corporate tax credits (See Appendix B)	13	62	134	176	185

*Estimates assume an April 1, 2017 effective date, while changes to the Film Tax Credits include a 12-month transition period

General Considerations

- In 2014-15, Quebec implemented a 20% across-the-board reduction in rates “to some thirty business tax credits,” with estimated savings of \$372M annually by 2016-17.
 - In 2015-16, at least 9 of these reductions were partially or fully reversed, with a published fiscal impact of \$64M for 2016-17 (increasing to more than \$80M annually in out years).
- An ATB approach is more easily justified as it treats all credits equally and is not targeted to a specific sector.
- Ontario reduced some business tax credits in the 2013-2016 Budgets, with estimated annual savings over \$325M when fully implemented.
- Training, and Film and TV tax credits are the subject of ongoing transformation reviews through PRRT.
- Sales tax harmonization and corporate tax cuts are estimated to save Ontario businesses \$9.6B per year when fully implemented, reducing the need for corporate income tax credits.

Sector-Specific Considerations

Training

- The Apprenticeship Training Tax Credit (ATTC) was reduced in Budget 2015.
- The Highly Skilled Workforce Report recommended that every student has at least one experiential learning opportunity by the end of high school and post-secondary education.

Film and Media

- The rates for two of the three film credits were reduced in Budget 2015.
- The Premier’s 2016 Mandate Letter to the Ministry of Tourism, Culture and Sport made a commitment to stable tax credit infrastructure for film and television.

Research and Development (R&D)

- The rates for two of the three R&D credits were reduced in 2016. Some of the savings were redirected to other targeted R&D investments.

CIT Rate Related Credits

- ATB approach could include changes to the Small Business Deduction and Manufacturing and Processing Tax Credit with consideration for maintaining a competitive tax system.

Eliminate Certain HST Point-of-Sale Rebates and Introduce Mitigation

Eliminate point-of-sale (POS) rebates of the 8% provincial portion of the Harmonized Sales Tax, and introduce mitigation through tax credits or targeted support.

Preliminary Estimate (\$ millions)*	2016-17	2017-18	2018-19	2019-20	2020-21
Prepared food and beverages sold for \$4 or less	-	190	200	205	215
Printed books	-	120	125	130	135
Print newspapers	-	55	55	55	60
Total**		365	380	390	405

Numbers may not add up due to rounding.

*Assumed implementation date April 1, 2017 for illustrative purposes only. The federal government requires a minimum of 120 days notice, together with set effective dates of Jan 1, April 1, or July 1.

**Does not build in cost of any mitigation options.

- Ontario gives a point-of-sale (POS) rebate for the 8% provincial portion of the HST payable on certain items.
 - A purchaser who buys an eligible item pays 5% HST, not 13% HST. The 8% provincial portion of the HST is rebated at the point of purchase.

Considerations

- All purchasers are eligible for POS rebates, regardless of the purchaser's income, wealth or whether the purchaser is an Ontario resident.
- A recent study by the Organisation for Economic Cooperation and Development (OECD) found that reducing the value-added tax (VAT) rate for designated goods and services can disproportionately benefit higher income households.¹
 - This is because higher income households typically consume more, and more expensive, goods and services than lower income households

¹ A reduced VAT rate is similar, from the purchaser's perspective, to a POS rebate.

Eliminate HST Point-of-Sale Rebates and Introduce Mitigation (cont'd)

- According to the OECD, “direct targeted transfers to low-income households are more effective in enhancing equity than VAT exemptions/zero-ratings.”²
- Mitigation options could include replacing one or more of the POS rebates with:
 - o Direct, targeted transfers to low-income households
 - e.g., an enhancement to the Ontario Sales Tax Credit (part of the Ontario Trillium Benefit).
 - o Direct, targeted support for public, private or non-profit initiatives that could better accomplish the government's policy objectives.
 - e.g., school lunch programs, public health initiatives, public library funding.
- More specifically, the POS printed book rebate for all purchasers could be replaced with an 8% book rebate for book purchases by bodies such as municipalities, educational institutions and libraries that is harmonized with the federal 5% book rebate.
 - o Newfoundland and Labrador eliminated its POS rebate for books effective January 1, 2017, and replaced it with a rebate that mirrored the federal book rebate.

	Newfoundland and Labrador book rebate	Federal book rebate
Pre-Jan. 1, 2017	10% point-of-sale rebate - all purchasers	5% rebate by application - municipalities, educational institutions, libraries, etc., only
Jan. 1, 2017	10% rebate by application - municipalities, educational institutions, libraries, etc., only	5% rebate by application - municipalities, educational institutions, libraries, etc., only

- POS rebates for children's items (clothing, footwear, diapers and car seats), and the First Nations POS rebate would be kept and not affected by any changes.

² OECD (2009), Economic Policy Reforms 2009: Going for Growth, OECD Publishing, Paris. p. 158.

Additional Land Transfer Tax on “Foreign Entities”

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Apply a 15% tax rate on residential property transfers to “foreign entities”	-	10	200	180	160

This option assumes a January 1, 2018 implementation date, a share of foreign buyers of 2.5% after implementation and a decline of approximately 10% year over year thereafter in the number of transfers involving “foreign buyers”, based on experiences in other jurisdictions.

Considerations

- A January 1, 2018 implementation date would allow time to analyze the additional information which will be collected on the Ontario Real Estate market starting in the Spring of 2017.
 - o Teranet is currently working on building a system to collect additional information on Ontario’s real estate on behalf of the Province (e.g., citizenship and residency of the purchaser, intended use of the property, etc.).
 - o This information will assist with the policy decisions relating to the implementation of the tax on residential property transfers to “foreign entities”.
- Given the very high rate of tax, schemes to avoid the tax would be highly attractive.
 - o For example, B.C. has a foreign buyers tax that can be avoided in a number of ways. (e.g., by creating a domestically-controlled Canadian corporation to buy the property; by buying a pre-sale contract and then assigning the contract to a third party who is a Canadian Citizen or permanent resident of Canada before the property is registered).
 - o B.C. introduced an anti-avoidance rule that applies to the additional foreign buyers tax; however, it is unclear whether the rule is effective.
- Based on discussions with Teranet, it is unclear whether their current land registration application, Teraview, would be able to collect a tax on “foreign entities” due to confidentiality considerations.
 - o The system to collect additional information on Ontario’s real estate on behalf of the Province is being collected outside of Teraview in an application called Teraview Express in order to address confidentiality concerns.
 - o Teranet is migrating from Teraview to a new application called Next Generation Teraview (NGTV) starting on 2018 which may be able to address these confidentiality concerns.
 - o There could be additional costs associated with Teranet collecting an additional land transfer tax on foreign entities.

Introduce a Tax on Sugar Sweetened Beverages

Introduce a tax on beverages sweetened with sugar

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Apply a tax based on sugar content: 0g to 5g of sugar per 100ml = \$0.00 per litre Between 5g and 8g of sugar per 100ml = \$0.30 per litre Greater than 8g of sugar per 100ml = \$0.40 per litre	-		390	385	385

*Estimates assume April 1, 2018 implementation date.

Considerations

- The Federal government as well as other provinces, such as New Brunswick, are exploring a sugar sweetened beverages tax. There are number of jurisdictions that have implemented a sugar sweetened beverages (SSBs) tax, such as the UK, Mexico, France, Belgium, and Berkeley, California.
- The tax would be levied on consumers and could be pre-collected by producers, similar to fuel and gasoline taxes.
 - o Preliminary estimates show there are approximately 38 producers of SSBs in Ontario who would need to be registered.
 - o However, unlike fuel and gas taxes, pre-collection of a tax on SSBs would be more complex due to the lack of enforcement mechanisms to tax international and interprovincial imports into Ontario.
 - o More research needs to be done on the logistics of taxing international and interjurisdictional imports.
- Alternatively, the tax could be collected at the retail level requiring approximately 350,000 retailers in Ontario to be registered.
 - o However, since the 2010 sales tax harmonization with the federal government, Ontario no longer has a mechanism or infrastructure in place to administer a new consumption tax at the retail level. A tax collection mechanism would take at least a year to implement and would require significant resources (approx. 100 FTEs, \$15M in start-up costs, \$10.5M annual cost).
- The *Taxpayer Protection Act* would need to be amended to permit the introduction of a new bill imposing a new tax.

Introduce a Tax on Sugar Sweetened Beverages (cont'd)

- This revenue model focuses on carbonates, concentrates, juice (except 100% fruit juice), sport and energy drinks and ready to drink coffee and tea.
 - Other beverages could be considered, such as natural juices, beverages with other sweeteners, meal replacement beverages, and milk based beverages.
- In February 2016, a Canadian Senate Committee report on obesity noted the “alarming obesity rates in Canada” and called for a possible new tax on sugar-sweetened and artificially-sweetened beverages. Organizations such as the World Health Organization and the Canadian Diabetes Association have also advocated for a tax on sugar sweetened beverages.

Eliminate Pension Income Credit

As part of Ontario's review of its tax expenditures, the pension income credit was identified as not effectively achieving desired outcomes and providing little benefit to low-income seniors.

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Eliminate Pension Income Credit	35	135	140	145	150

* Revenue estimates beyond 2017 are assumed to grow by 3.5% per year.

Considerations

- The pension income credit was introduced in 1975 to assist pensioners living on fixed incomes who were struggling during a period of high inflation. With lower inflation and indexed public pensions, this intent is no longer relevant.
 - o About 25 per cent of the value of this credit goes to non-seniors with eligible pension income.
 - o Low-income seniors with no access to private pensions do not benefit from the credit.
 - o Pension income splitting allows couples to receive two pension income credits for a single pension source.
- Smaller changes could tighten eligibility for other NRTCs, but would raise minimal revenue. For example:
 - o Age Credit
 - Do not allow unused age tax credits to be transferred to a higher-income spouse.
 - o Spouse/Eligible Dependant Credit
 - Parallel the federal rules, and begin phasing out the credit at \$1 of spousal/dependant income, rather than \$850.
 - o Caregiver Credit
 - If the caregiver credit is being claimed with respect to a parent or grandparent, require the parent or grandparent to be infirm.
 - o Medical Expense Credit
 - Lower the maximum amount of attendant care expenses, the maximum claim for the cost of adapting a van for transporting a patient who requires the use of a wheelchair, and the maximum claim for moving expenses for patients to move to more accessible dwellings, and de-index the limits, to match federal limits.
 - o Charitable Donations Tax Credit
 - Increase the threshold for the higher credit rate from \$200 to \$300. Had the indexation been introduced when the threshold was last changed, in 1994, the threshold would be about \$300 in 2017. This would result in about \$10 million in additional revenue.

Tobacco Tax

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
OPTION ONE: Continue with plan to increase tobacco tax rates by an amount based on inflation (2%) each year starting on June 1, 2017, as outlined in Budget 2016. - Such an approach will result in tobacco tax increases equal to \$0.62 - \$0.64 per carton of 200 cigarettes each year - These increases are projected to generate approximately \$5-\$10M in new revenues each year - Annual inflationary-based increases are intended to ensure that the tobacco tax rate does not depreciate in real value terms due to inflation - Modest inflation-based increases are also intended to not result in any increased impacts on the contraband market	-	Approx. \$5 - \$10 M	Approx. \$10 - \$15M	Approx. \$15-20M	Approx. \$20-25M
OPTION TWO: Increase tobacco taxes by one cent per cigarette and per gram of tobacco product (equivalent to \$2.00 per carton of 200 cigarettes) in Budget 2017 - This increase is projected to result in up to \$40M in new tobacco tax revenues in 2017/18, as compared to current projections - The government could continue annual inflation-based increases starting in 2018 - There is a risk that the after the tax increase anticipated revenues would not be fully realized due to an increase in the contraband tobacco market	-	Up to \$40M	Up to \$45 - \$50M	Up to \$50-\$55M	Up to \$55 - \$60M

Tobacco Tax (cont'd)

Considerations

- Tobacco tax revenues are dependent on a number of factors, including most importantly the size of the contraband tobacco market, currently estimated to be up to 30% of the total tobacco market in Ontario.
- There is a risk that larger tax increases can drive consumers to the contraband market, and therefore undermine revenue projections.
- Raising tobacco taxes on an annual basis supports the government's public health and revenue objectives (as it would ensure that at a minimum, the tobacco tax rate remains consistent on a real dollar basis over time) without significantly impacting the contraband tobacco market.
- Budget 2016 included a tobacco tax increase equivalent to \$3 per carton of 200 cigarettes. Preliminary revenue figures suggest that this will have resulted in up to 70M in new revenues.

Tobacco Tax Rates in Canada

	Cigarettes (per 200)	Fine-cut (per gram)	Cigars (per cigar)
Federal excise duty	\$21.03	13.140¢	The greater of: \$0.08226 per cigar and 82% of the sale price
Manitoba	\$59.00	28.500¢	75% retail selling price to \$5.00 max
North West Territories	\$57.20	26.600¢	75% of retail price
Nova Scotia	\$55.04	26.000¢	60% of retail price
Alberta	\$50.00	37.500¢	129% taxable price to \$7.83 max.
Saskatchewan	\$50.00	25.000¢	100% of taxable value to \$5.00 max
Nunavut	\$50.00	20.000¢	75% of retail price
Prince Edward Island	\$50.00	21.500¢	71.6% of retail price
Newfoundland & Labrador	\$49.00	40.000¢	125% of purchase price
British Columbia	\$47.80	23.900¢	90.5% of the taxable price, to \$7.00 max
New Brunswick	\$44.52	22.260¢	75% of retail price
Yukon	\$42.00	21.000¢	130% of taxable price
Ontario	\$30.95	15.475¢	56.6% of retail price
Quebec	\$29.80	14.900¢	80% of taxable price

Alcohol Options

**Increase beer basic tax/LCBO mark-up by 6 cents/L in Nov 2017 and 2018, instead of planned 3 cents/L increases.
LCBO introduce a 2% fee for Limited Time Offers (i.e., promotional programs).**

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Beer tax/LCBO mark-up increase of 6¢ per litre in Nov 2017 and Nov 2018	-	13.5	41.1	58.5	58.5
2% fee on Limited Time Offers	-	11	15	15	15
Total		24.5	56.1	73.5	73.5

General Considerations

- Majority of Premier's Advisory Council recommendations implemented and built into the fiscal plan: \$182M from the beer and wine sectors by 2019-20.
- Some changes since Budget plan will reduce expected revenue, including:
 - o \$10M in 2018-19 from planned but likely cancelled competitive tendering pilot program, \$1.5M decrease from change to the minimum price treatment of cider, \$3.6 million annual decrease from elimination of LCBO Special Occasion Permit fee.
 - o New small producer support programs estimated to cost \$1.9M in 2017-18, \$1.7M in 2018-19 and \$1.7M in 2019-20. If approved, MOF has committed to increase dividend to the CRF to offset program allocation to OMAFRA.
- Proposed options would build on policy direction to:
 - o more closely harmonize the relative burden among beer, wine and spirits; and
 - o support LCBO in introducing strategies that use its buying power to reduce operating costs.

Alcohol Options (cont'd)

Increase beer basic tax/LCBO mark-up by 6 cents/L in Nov. 2017 and 2018 (instead of scheduled 3 cents/L increases)

- Full impact would not be realized until 2019-20.
- Would require legislative change to *Alcohol and Gaming Regulation and Public Protection Act*.
 - Consumer prices would increase by 50 cents per 24-case of beer each of November 2017 and 2018 instead of 25 cents per 24 case each year as announced in the 2015 Budget.
- Brewers may respond by cancelling price caps for certain products
 - The large brewers committed to cap consumer prices of some of their most popular brands until May 2017.
 - Timing of 2017 Budget announcements could affect brewers' response.

LCBO introduce a 2% fee for Limited Time Offer (LTO) promotional programs

- Could be revenue generating alternative to LCBO's competitive tendering pilot that is in the fiscal plan for 2018-19 but unlikely to proceed.
 - Industry groups believe competitive tendering would violate trade agreements.
- Increased cost of LTOs not expected to impact demand because they are seen to be very effective promotional opportunities.
 - LCBO proposes to increase the total number of LTOs available to suppliers to respond to this demand.
- Winery and Grower Alliance of Ontario (WGAO) identified additional LTOs as introducing additional promotional costs on their businesses.
- 2% LTO fee is an operational initiative that would be implemented and announced by the LCBO and need not be included in the Document. Additional revenue would be included in LCBO's dividend forecast.

APPENDICES

Appendix A: Federal Related Options – Introduce a Charge on Cannabis

The federal government plans to legalize, regulate and restrict access to marijuana.

Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Government charge on Cannabis (\$1 per gram)	-	-	20	120	245

Key Estimate Assumptions

Estimates assume a Q4 2018-19 implementation date. This will allow (1) federal legislation to receive Royal Assent; (2) provincial legislation to receive Royal Assent; and (3) implementation of a provincial distribution / collection system. It is assumed that provincial legislation could not be introduced until federal legislation receives Royal Assent.

Estimates include the incremental impact on HST.

Estimates are provided on a per gram basis, rather than on THC potency as recommended in the federal Task Force report. MOF staff are continuing to develop options and will be working with the federal government.

Estimates assume 15% of the adult population in Canada uses marijuana (based on a study by the Centre for Addiction and Mental Health).

Estimates do not assume any growth in use as a result of legalization.

The 2018-19 and 2019-20 estimates have been discounted to assume a gradual transfer of consumption to the legal market. The experience of other jurisdictions indicates that in the early years of implementation, the transfer of users to the legal market has progressed over a period of time.

Considerations

- Charge on Cannabis could be structured as either a tax or a mark-up. As a mark-up, the charge could be either a flat tax or an ad valorem.
- On December 13, 2016, the Task Force released a report on Cannabis Legalization and Regulation recommending to tax cannabis based on THC potency. Further analysis is being completed regarding revenue estimates based on THC potency.
- Design of charge would require striking a balance between pricing the product heavily enough to offset social costs, and not so heavily as to result in widespread evasion and contraband sales.

Appendix A: Federal Related Options – Introduce a Charge on Cannabis (cont'd)

Considerations (cont'd)

- The parameters of these options are highly dependent on direction provided by the federal government and on the regulatory model chosen
 - The federal government plans to introduce legislation in spring of 2017.
 - The Federal Cannabis Secretariat has noted that it will take at least a full year to achieve Royal Assent.
- If structured as a tax, the province could only impose a direct tax on the consumer; however, the tax could be pre-collected at the producer and importer level (similar to tobacco and fuel taxes); Taxpayer Protection Act would need to be amended to permit a new tax.
 - GST/HST would apply on top of the cannabis tax (similar to tobacco and fuel taxes).
 - Potential taxation models include: per unit tax, potency-based tax, and price-based tax (e.g., percentage mark-up).
- A charge could be applied to recreational cannabis only or to both recreational and medical cannabis. If only applied to recreational use, a charge would create a price gap that could create opportunities (albeit illegal) for arbitrage.
- If structured as a tax, the province would need to consider whether specific groups qualify for an exemption (e.g., First Nations, diplomats, etc.). Alternatively, the federal government could impose a tax and share revenue with provinces. This would likely reduce provincial flexibility and generate less revenue.

Appendix A: Federal Related Options – Sharing Special Federal-only Taxes with Provinces

The federal government keeps all the tax revenue from certain income tax measures, some of which have a substantial provincial connection. Ontario can approach other provinces to create consensus for pressing the federal government on sharing this revenue.

Fiscal Impact

- Federal information is needed to estimate the fiscal impact.

Considerations

- The federal government imposes special taxes in specific situations, such as withholding taxes on certain payments made to non-residents of Canada, or tax on disposition of certain properties by a non-resident.
- Some of these taxes are levied by the federal government at a rate that reflects both federal and provincial taxes, but the provincial portion is not shared with provinces, even where there is a substantial connection to the province.
- In the 2006 Memorandum of Agreement between Canada and Ontario concerning a single administration of Ontario corporate tax, the federal government committed to reviewing the possibility of sharing some of the tax revenue from these special taxes with the provinces.
 - o The federal government also agreed to provide the results of the review to the provinces.
- The federal government has not fulfilled its commitment to complete a review regarding the sharing of these taxes.
- This has been a long-standing federal provincial issue. The 1967 Smith Committee recommended that, “In the negotiation of any future fiscal arrangements with the federal government, Ontario press for a provincial sharing in the yield from the non-resident withholding tax”.

Appendix A: Federal Related Options – Reform of Corporate Meals and Entertainment Tax Allowances

Businesses benefit from a 50% income tax deduction on Meals and Entertainment (M&E) expenses. The province could lobby the federal government to remove this preferential tax treatment.

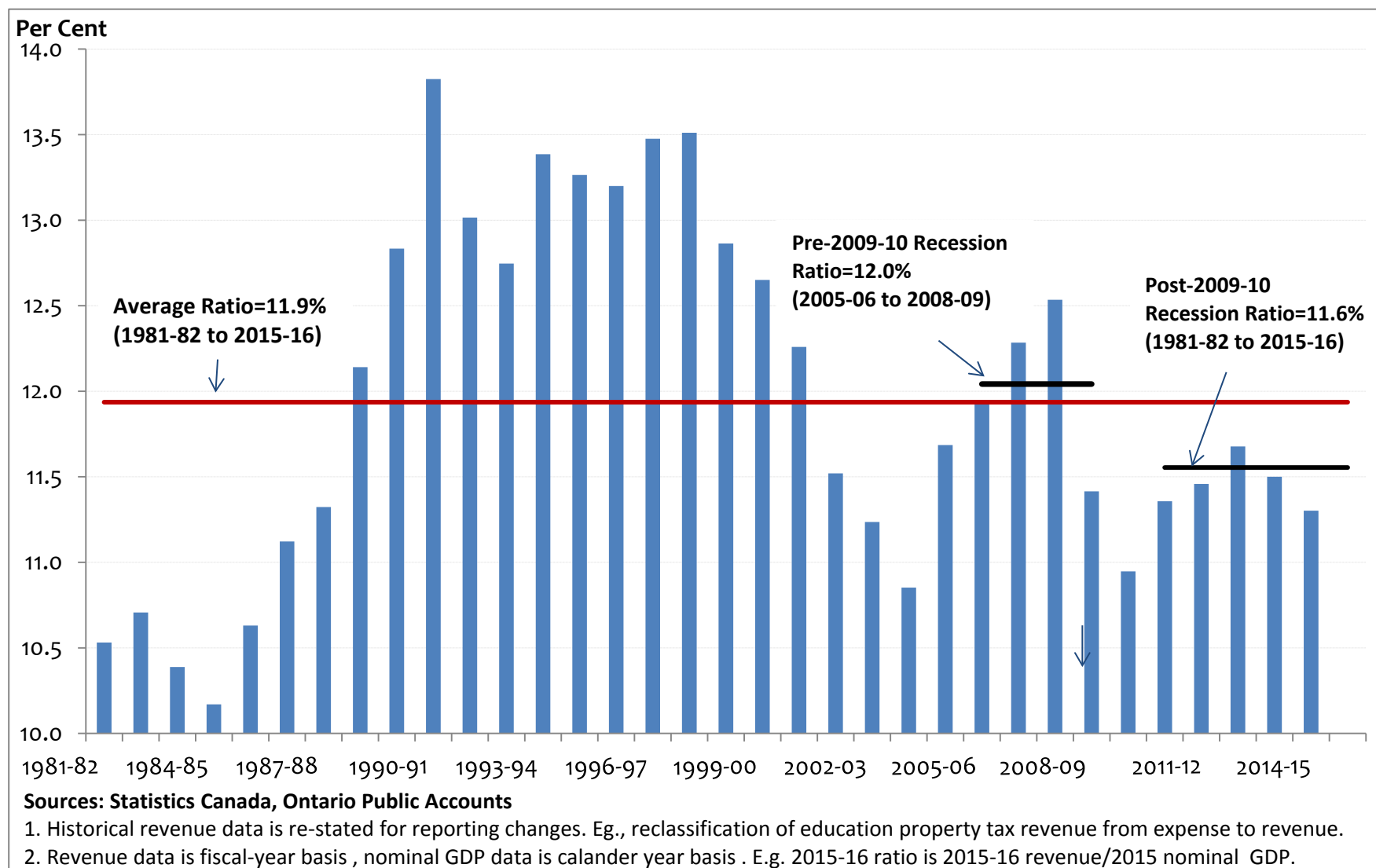
Preliminary Estimate (\$ millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Corporate Meals and Entertainment (M&E) Tax Allowances Lobby the federal government to remove the 50% income tax deduction on M&E expenses.	20	170	250	340	340

*Estimates are based on 2016 federal tax expenditures and assume a Jan. 1, 2017 effective date phased-in over 4 years.

Considerations

- Businesses can also qualify for a 50% input tax credit (ITC) for Harmonized Sales Tax (HST).
- M&E involves a personal benefit but the benefit is not taxed in the hands of the recipient.
- Some entertainment expenses (club dues, golf green fees) currently do not give rise to any income tax deduction or ITC.
- In the 2016 federal Budget the federal government announced they would be undertaking a comprehensive review of federal tax expenditures.
 - The tax treatment of corporate meals and entertainment may be included in the federal tax expenditure review.
- Ontario could request that the federal government review federal legislation to remove this tax preference.
 - The restriction on M&E could also be focused on certain items (e.g. corporate boxes, unreasonable meal expenses, etc.)
 - An Ontario administered alternative (e.g., surtax) would not be viable.
- In 2012, Minister Duncan wrote a letter to the federal Minister of Finance requesting that certain business expenses such as private seats and corporate boxes not be subsidized for corporate or sales tax purposes.
 - The federal government did not make any changes with respect to this request.
- A change of this nature would directly impact companies claiming the deduction and could have indirect impacts on the hospitality industry. The extent of these impacts would require further analysis.

Appendix B: Background Statistics – Ontario Taxation Revenues to Nominal GDP Ratio^{1,2}



Appendix B: Background Statistics – Federal and Ontario Tax Burdens on Households (2017)

Average Annual Taxes by Household Income – Ontario Households (Estimates for 2017)

Household Income ¹ (\$ 000s)	Average Income (\$)	Number of Households (000s)	Per Cent of Households (%)	Average PIT ² (\$)	Average Sales Tax ³ (\$)	Average Gas/Fuel Tax ⁴ (\$)	Combined Tax as a Per Cent of Average Income (%)
4-20	13,700	315	6	140	260	110	4
20-30	24,200	570	10	510	660	150	5
30-40	34,800	530	9	1,420	860	220	7
40-50	44,800	535	9	2,570	1,860	330	11
50-60	55,000	405	7	4,590	2,650	410	14
60-70	64,800	400	7	6,300	3,200	450	15
70-80	75,000	355	6	8,350	3,680	500	17
80-90	85,000	335	6	10,230	4,270	530	18
90-100	95,100	305	5	12,860	4,580	520	19
100-125	112,100	615	11	16,890	5,250	730	20
125-150	136,300	440	8	22,410	5,810	700	21
150-300	193,300	755	13	38,290	7,890	840	24
300-500	375,400	80	1	103,120	11,370	1,010	31
500-750	596,900	25	< 1	191,780	13,530	870	35
750-1,000	857,000	10	< 1	306,040	17,820	890	38
1,000-2,000	1,331,400	10	< 1	491,580	22,050	1,120	39

Source: Ontario Ministry of Finance Household Model, Statistics Canada's Social Policy Simulation Database and Model v22.3.

¹ Household income is the sum of pre-tax market income for all household members, and includes provincial and federal transfers. Households with income below \$4,000 or over \$2,000,000 are not included due to sampling limitations.

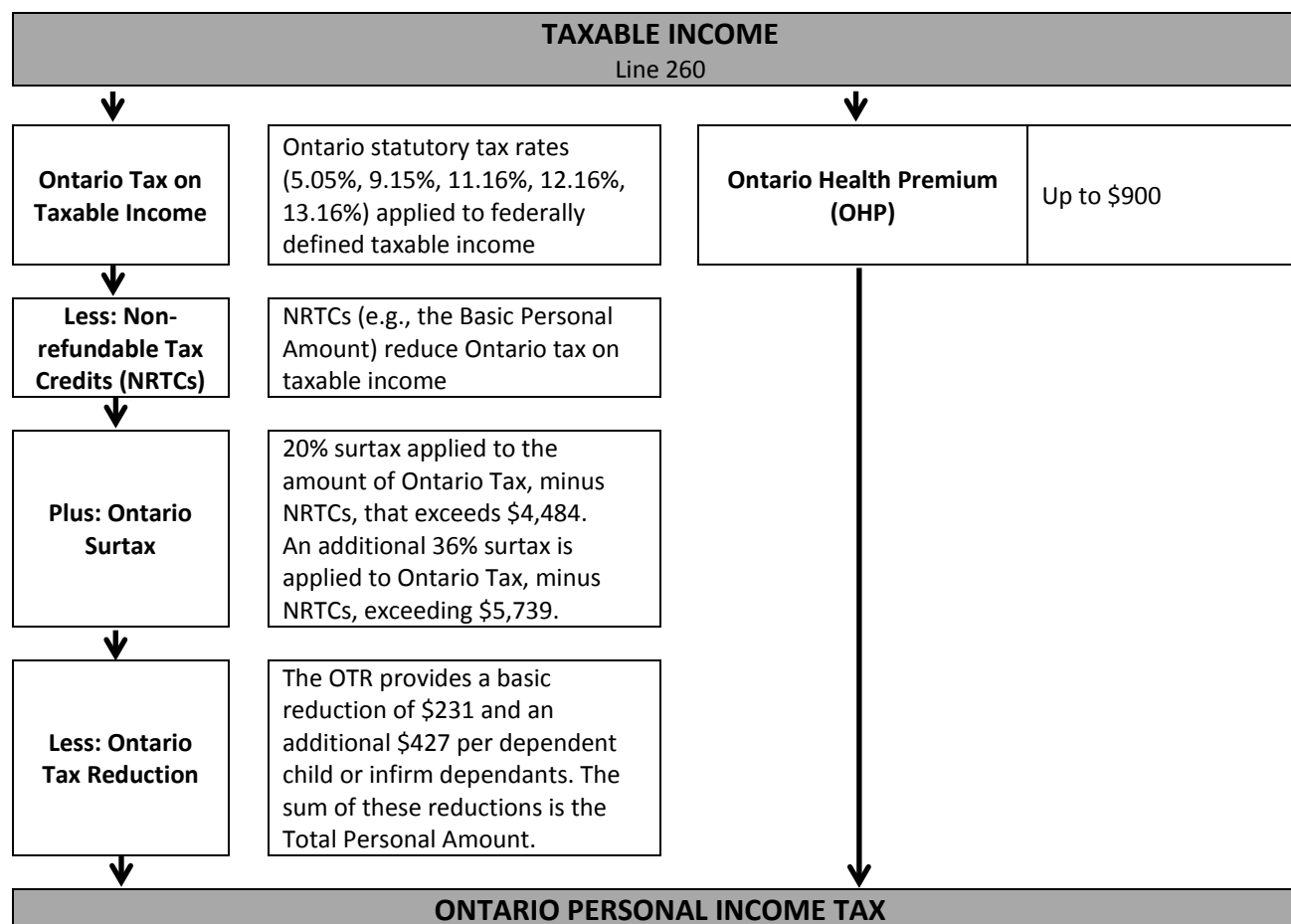
² The combined Federal and Ontario PIT includes the Ontario Health Premium, but does not include any offsets from refundable tax credits.

³ Sales Tax is the combined Ontario and Federal portions of the HST as well as the Ontario Retail Sales Tax on specified insurance premiums and private vehicle transfers. It does not include HST on housing. Figures include the offsetting benefits from the Ontario Sales Tax Credit, the energy portion of the Ontario Energy and Property Tax Credit as well as the federal GST credit.

⁴ Gas/Fuel Tax is the combined Ontario and Federal Gasoline/Fuel Tax. It does not include Gas/Fuel taxes paid by businesses that may be embedded in consumer prices.

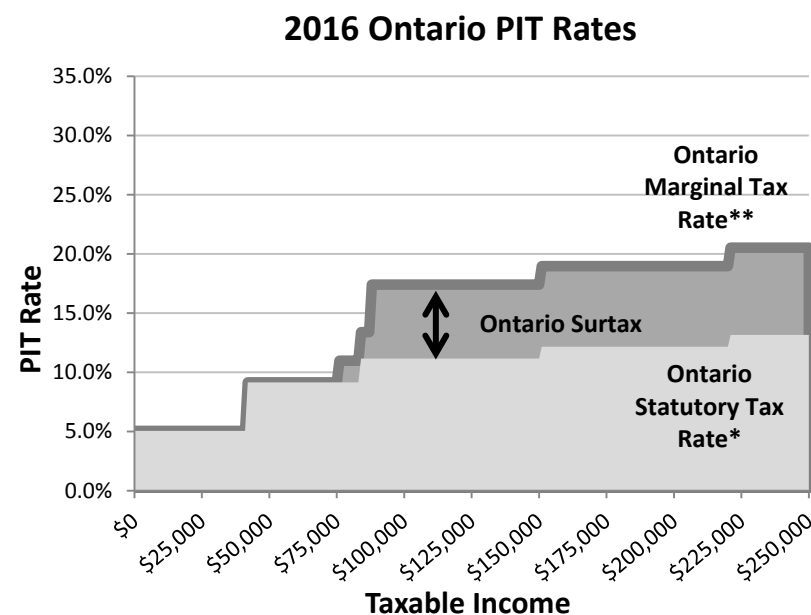
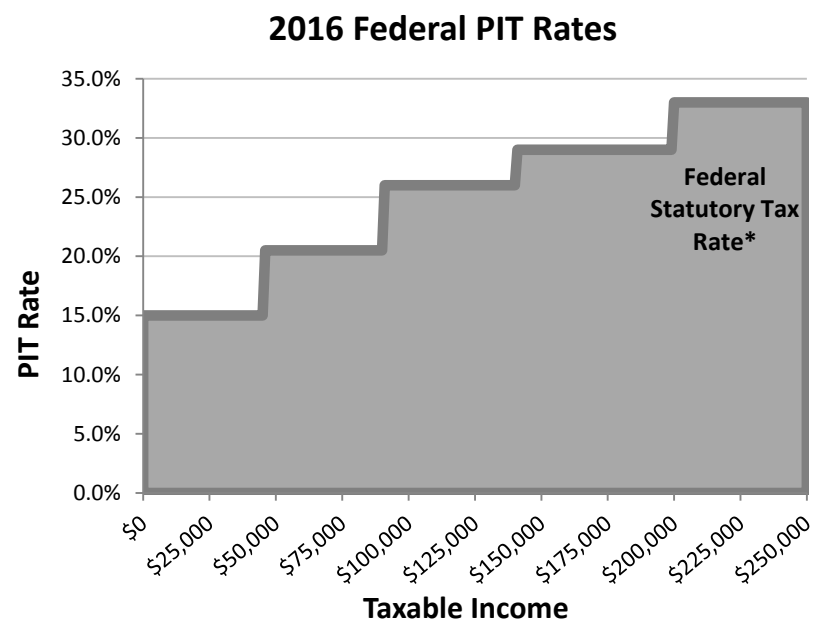
Appendix B: Background Statistics – Steps in Calculating Ontario's Personal Income Tax (2016)

- The surtax, Ontario Tax Reduction (OTR) and Ontario Health Premium (OHP) are components of Ontario's PIT calculation.
- The surtax and OTR are both calculated after non-refundable tax credits (NRTCs) have reduced Ontario Tax. As a result, both the surtax and OTR interact with NRTCs.
 - o The OHP is based on taxable income and cannot be reduced by the OTR or NRTCs.



Appendix B: Background Statistics – Personal Income Tax – Federal Ontario Comparison

- Like federal PIT, Ontario PIT rises with income, although Ontarians pay less Ontario PIT than federal PIT.



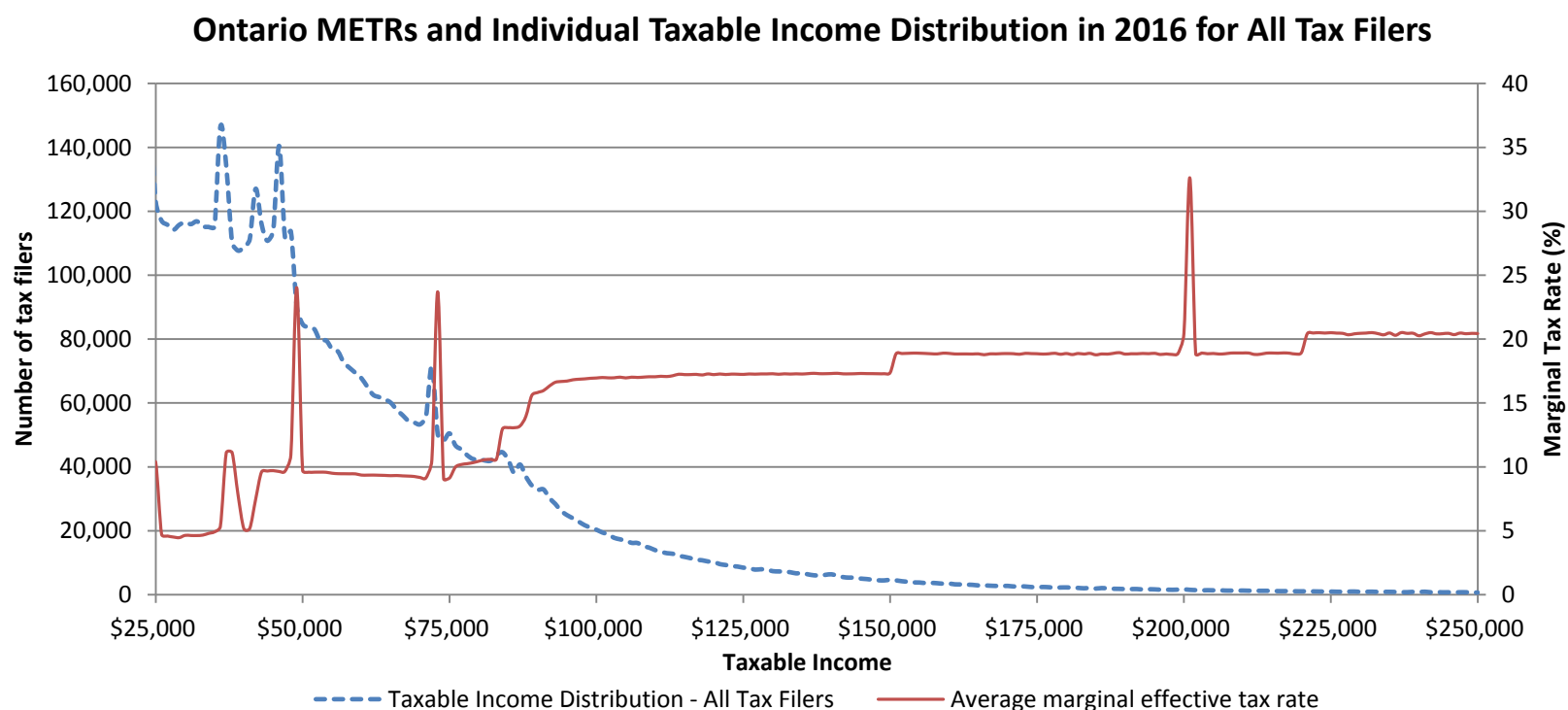
Notes:

*Federal and Ontario statutory tax rates apply to income before accounting for any credits or surtaxes (e.g., the Ontario surtax, Ontario Health Premium (OHP)). Ontario's statutory tax rates are 5.05%, 9.15%, 11.16%, 12.16% and 13.16%. The federal government has increased its top PIT rate from 29% to 33% effective January 1, 2016 and reduce its second PIT rate from 22% to 20.5%.

**Ontario marginal tax rates account for the impact of the Ontario surtax but excludes the OHP and tax credits. The income level at which the surtax starts varies based on composition of income and credits claimed. For this example, the surtax is based on a single taxpayer with employment income only who claims the Ontario non-refundable basic personal amount, Canada Pension Plan contribution and Employment Insurance premium tax credits.

Appendix B: Background Statistics – Impact on METRs

- The graph below demonstrates how the surtax and OHP sharply increase marginal effective tax rates (METRs) over small ranges of income (e.g., \$48,000 to \$48,600).
- The corresponding spikes in the number of tax filers shown below suggest that people are tax planning to avoid jumps in METRs, including the surtax.

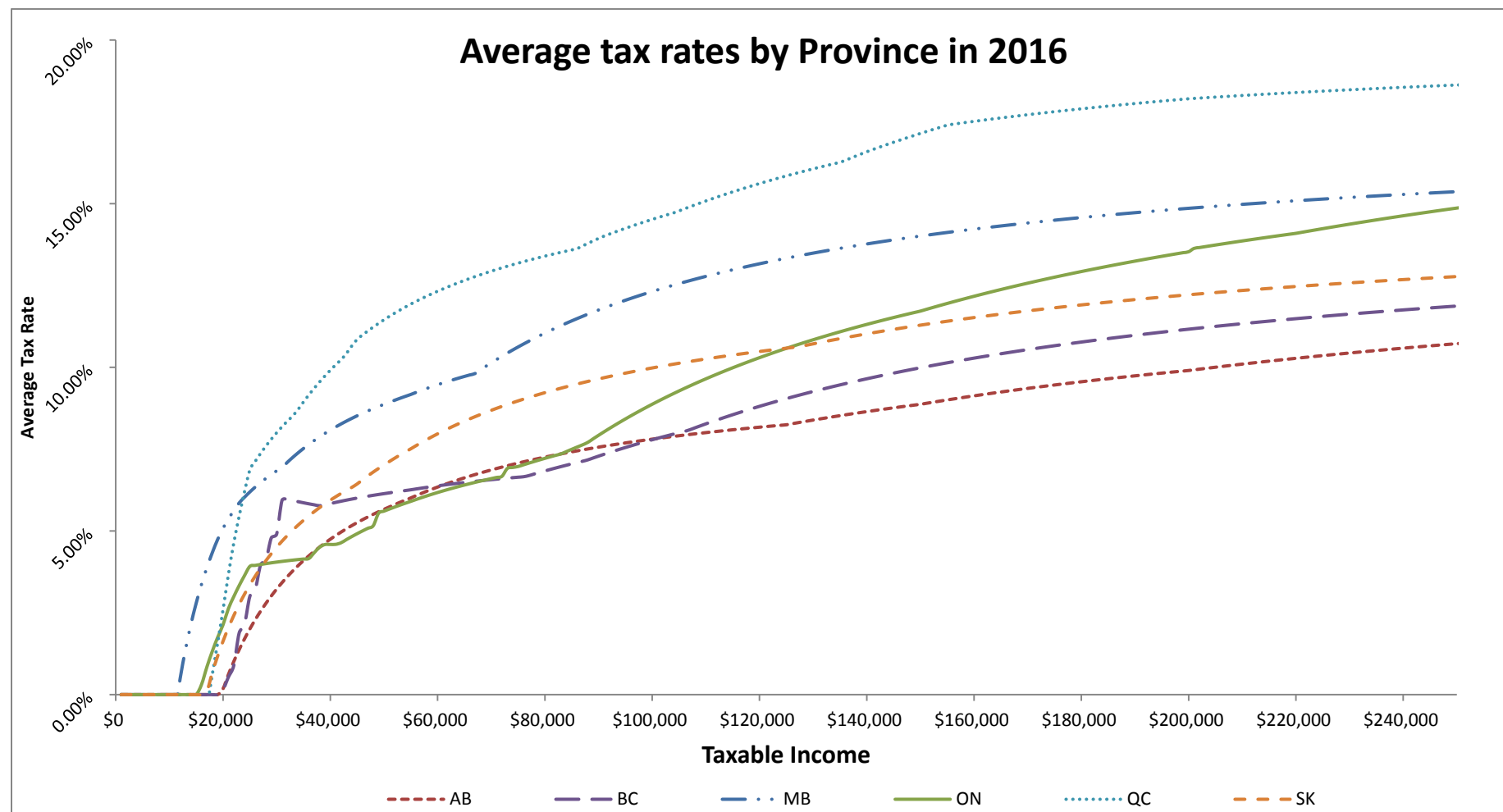


Appendix B: Background Statistics – Personal Income Tax Provincial Comparison

Comparison of 2016 Personal Income Taxes, Single Person ⁽¹⁾							Top Marginal Rate ⁽⁶⁾	
Taxable Income (\$)	25,000	50,000	75,000	100,000	500,000	1,000,000	Provincial	Combined
Federal Taxes ⁽²⁾ (\$)	1,625	5,378	10,464	16,108	142,897	307,897	-	33.00%
Provincial Taxes (\$)								
Ontario	979	2,803	5,227	8,871	88,487	191,135	20.53%	53.53%
Alberta	501	2,831	5,305	7,805	63,805	138,805	15.00%	48.00%
British Columbia	751	3,070	4,982	7,786	66,429	139,929	14.70%	47.70%
Manitoba	1,548	4,434	7,966	12,316	81,916	168,916	17.40%	50.40%
New Brunswick	956	4,070	7,750	11,779	91,331	192,831	20.30%	53.30%
Newfoundland	1,502	4,500	8,053	11,690	77,965	161,965	16.80%	49.80%
Nova Scotia	1,317	4,622	8,609	12,834	95,084	200,084	21.00%	54.00%
Prince Edward I.	1,516	4,519	8,264	12,439	85,912	177,762	18.37%	51.37%
Quebec ⁽²⁾	1,716	5,725	9,887	14,519	97,324	198,849	20.31%	53.31%
Saskatchewan	839	3,509	6,730	9,980	69,432	144,432	15.00%	48.00%
Average Rates ⁽³⁾								
Ontario	3.92%	5.61%	6.97%	8.87%	17.70%	19.11%		
Rest of Canada	4.74%	8.29%	10.01%	11.24%	16.21%	16.93%		
Ontario Rank ⁽⁴⁾	5	1	2	3	7	7		
Marginal Rates ⁽⁵⁾								
Ontario	4.71%	8.81%	9.63%	17.41%	20.53%	20.53%	20.53%	53.53%
Rest of Canada	9.84%	12.48%	14.16%	15.30%	17.65%	17.65%	17.65%	50.65%
Ontario Rank	1	2	2	8	9	9	9	9
Notes								
(1)	Assumes all income is employment income, with no deductions. Calculations to determine PIT payable incorporate core elements of each tax system, including the basic personal amount, non-refundable credits for payroll contributions, tax reductions, surtaxes and health premiums, if applicable. Excludes benefits and refundable credits.							
(2)	Federal taxes are slightly different in Quebec due to different payroll contribution levels. Quebec provincial tax has been reduced by the 16.5% federal abatement for comparative purposes. Assumes individual does not claim non-refundable credit amount for single people living alone.							
(3)	Provincial tax as a per cent share of taxable income.							
(4)	Rankings are from lowest to highest (e.g., a rank of one would be the lowest, or tied for the lowest, of the 10 provinces). Ontario ranks 5 th in the \$25,000 taxable income bracket due to other provinces having higher basic personal amounts and due to the Ontario Health Premium.							
(5)	Marginal rates calculated based on \$100 of additional income. Excludes benefits and refundable tax credits. Some marginal rates are affected by health premium phase-ins.							
(6)	Marginal rate faced by highest-income earners.							

Appendix B: Background Statistics – Personal Income Tax Provincial Comparison (cont'd)

- People earning between \$36,000 and \$68,000 pay less PIT in Ontario than any other province.



Appendix B: Background Statistics – Corporate Income Tax Rates – Federal Provincial Comparison

CIT Rates	CAN	ON	BC	AB	SK	MB	QC	NB	PE	NS	NL
General	15	11.5	11	12	12	12	11.8	14	16	16	15
M&P	15	10	11	12	10	12	11.8	14	16	16	15
Small Business	10.5	4.5	2.5	3	2	0	8	3.5	4.5	3	3
Gap between General and SB Rates:	4.5	7.0	8.5	9	10	12	3.8	11	11.5	13	12

Federal and provincial SB income thresholds are \$500,000, except for NS (\$350,000). MB increased the SB income threshold from \$450,000 to \$500,000, effective July 1, 2017).

CAN: Reducing the SB tax rate from 11% to 9% (10.5% Jan 1, 2016, 10% Jan 1, 2017, 9.5% Jan 1, 2018, 9% Jan 1, 2019). [2015 Budget]. The Federal SB rate has been frozen at 10.5% indefinitely. [2016 Budget]

MB: Increasing the SB income threshold from \$450,000 to \$500,000 in 2017 (for CCPCs that qualify for the 0% SB rate). [December 1, 2015 New s Release]

QC: Reducing the general CIT rate from 11.9% to 11.5% (11.8% Jan 1, 2017, 11.7% Jan 1, 2018, 11.6% Jan 1, 2019, 11.5% Jan 1, 2020). [2015 Budget]

Reducing the SB tax rate from 8% to 4% for businesses that are manufacturers (From 8% to 6% effective June 5, 2014, and from 6% to 4% effective April 1, 2015).

Extended to corps in the primary sector (agriculture, forestry, fishing, hunting, mining quarrying, oil & gas extraction); requires 50% of M&P or primary sector activities.

A corporation that is not M&P or primary sector must have more than 3 Full-Time employees to receive the SBD rate of 8% (Effective Jan 1, 2017, the criteria is replaced with 5,500 hours worked per year).

NB: Increased the general CIT rate from 12% to 14%, effective April 1, 2016. [2016 Budget]

NL: Increased the general CIT rate from 14% to 15%, retroactively to January 1, 2016. [2016 Budget]

AB: Increased the general CIT rate from 10% to 12%, effective July 1, 2015. [June 2015 Special Notice]

Reduced the small business CIT rate from 3% to 2%, effective January 1, 2017. [2016 Budget]

Appendix B: Background Statistics – Insurance Premiums Tax Federal Provincial Comparison

Insurance Premiums Tax	CAN	ON	BC	AB	SK	MB	QC	NB	PE	NS	NL
Life, Accident and Sickness	-	2	2	3	3	2	3.48	2	3.5	3	5
Casualty	-	3	4.4	4	4	3	3.48	3	3.5	4	5
Property	-	3.5	4.4	4	5	4.25	3.48	4	4.5	5.25	5

AB: Increased the IPT rate from 2% to 3% on premiums for life, accident and sickness insurance and from 3% to 4% on premiums for all other forms of insurance (effective April 1, 2016).

NL: Increased the IPT rate from 4% to 5% on all insurance categories (effective July 1, 2016).

- Insurance Premium Tax (IPT) is also collected and paid to the province by administrators of funded and unfunded benefit plans (i.e., Ontario uninsured benefit arrangements), anyone buying insurance placed with an insurer not licensed in Ontario, and reciprocal or inter-insurance exchanges. Generally, insurance corporations operating a business through a permanent establishment in Ontario pay premium tax on all premiums.
- Manitoba is currently examining whether the IPT should be considered an indirect tax, as opposed to a direct tax, in amending the *Insurance Corporations Tax Act*.
 - Since the IPT is levied against an insurer and is calculated as a percentage of the premiums received from its policyholders, it can be passed on in the premium charged to each insured (a characteristic of an indirect tax).
- Most U.S. states impose “retaliatory taxes” on “foreign” insurers operating in the state’s jurisdiction, but incorporated or organized out of state.
 - In most cases, the retaliatory tax is computed as the difference between a state’s IPT, licenses and other fees (in aggregate) and that of the jurisdiction in which the insurance company is incorporated or based.
 - If Ontario’s insurance companies incorporate in a U.S. state they are not subject to a retaliatory tax in that state.
 - The retaliatory tax is unique to the insurance industry and is applied to discourage other states from imposing higher IPT rates and fees on its state’s domestic insurers.
 - Massachusetts, Minnesota, New York and Rhode Island do not impose retaliatory taxes on foreign insurers’ incorporated in jurisdictions which do not impose retaliatory taxes.
 - Ontario’s current IPT rates are generally higher than those of most U.S. states IPT rates which range from 0.5% to 4.35%, across all types of insurance. Many states have life insurance IPT rates less than 3%.

Appendix B: CIT Credits - Across the Board - Estimated Revenue/Savings (\$M)

	MAESD - Training Tax Credits	2016-17	2017-18	2018-19	2019-20	2020-21	Key Notes
Exp	Apprenticeship Training (ATTC) Reduce rate from 25% to 20% (30% to 25% for small business), and annual limit per apprentice from \$5,000 to \$4,000.	(0.7)	(5.0)	(12.4)	(17.9)	(21.4)	• ATTC was reduced in 2015 Budget. • Some savings could be redirected to grants to encourage completions and hiring from underrepresented groups.
Exp	Co-operative Education Training (CETC) Reduce rate from 25% to 20% (30% to 25% for small business), and limit per placement from \$3,000 to \$2,400.	(1.7)	(6.4)	(9.2)	(9.4)	(9.5)	• Some savings could be redirected to support HSW recommendation that every student has at least one experiential learning opportunity by the end of high school and post-secondary education.
	Subtotal	(2.4)	(11.4)	(21.6)	(27.3)	(30.9)	

	MTCS - Film and Media Tax Credits	2016-17	2017-18	2018-19	2019-20	2020-21	Key Notes
Exp	Domestic Film Tax Credit (OFTTC) Reduce rate from 35% to 28%, and regional bonus from 10% to 8%.	0.0	(3.7)	(19.1)	(32.4)	(33.9)	• MTCS 2016 mandate includes marketing a stable tax credit infrastructure to the world.
Exp	Foreign Film Production Services (OPSTC) Reduce rate from 21.5% to 17.5%.	(0.1)	(6.4)	(29.0)	(42.4)	(44.2)	• OPSTC was reduced in 2015 Budget. • MTCS 2016 mandate includes marketing a stable tax credit infrastructure to the world.
Exp	Computer Animation and Special Effects (OCASE) Reduce rate from 18% to 14.5%.	0.0	(0.5)	(3.2)	(6.2)	(6.5)	• OCASE was reduced in 2015 Budget. • MTCS 2016 mandate includes marketing a stable tax credit infrastructure to the world.
Exp	Interactive Digital Media (OIDMTC) Reduce rates from 35-40% to 28-32%.	(1.7)	(7.7)	(13.8)	(16.3)	(17.5)	• OIDMTC eligibility was narrowed in 2015 Budget.
Exp	Book Publishing (OBPTC) Reduce rate from 30% to 24% (Additional savings TBD from reducing max per title from \$30,000 to \$24,000).	(0.1)	(0.4)	(0.7)	(0.7)	(0.7)	
	Subtotal	(1.9)	(18.7)	(65.8)	(98.0)	(102.8)	

	MEDG - Research and Development Tax Credits	2016-17	2017-18	2018-19	2019-20	2020-21	Key Notes
Exp	Innovation Tax Credit (OITC) Reduce rate from 8% to 6.5%.	(4.5)	(16.5)	(25.0)	(29.4)	(29.4)	• OITC was reduced in 2016 Budget.
Exp	Business Research Institute Tax Credit (OBRITC) Reduce rate from 20% to 16% for R&D performed under contract with eligible research institutes.	(0.5)	(1.6)	(2.1)	(2.1)	(2.1)	
Rev	Research and Development Tax Credit (ORDTC) Reduce rate from 3.5% to 2.8%.	(3.7)	(14.0)	(19.4)	(19.4)	(19.4)	• ORDTC was reduced in 2016 Budget.
	Subtotal	(8.7)	(32.1)	(46.5)	(50.9)	(50.9)	

(A) Estimated Revenue/Savings of Up To:	(13)	(62)	(134)	(176)	(185)

	Additional Options: Corporate Income Tax (CIT) Rate Related	2016-17	2017-18	2018-19	2019-20	2020-21	Key Notes
Rev	Small Business Deduction (SBD) and Tax Credit for Manufacturing & Processing (M&P) Several mechanisms available (including increasing 4.5% CIT rate for small businesses, and 10% CIT rate for M&P businesses).	TBD	TBD	TBD	TBD	TBD	• Tax room available from federal SB rate change (11% to 10.5% in JAN 2016). • SBD eligibility was phased out for larger businesses in Budget 2013.

- Estimates assume an April 1, 2017 effective date, while changes to the Film Tax Credits (OFTTC, OPSTC, OCASE) include a 12-month transition period.
- Other incentives and deductions not included: Community Food Program Donation (CFPDTC), Political Contributions (OPCTC), Small Beer Manufacturers' (OSBMTC).
- Figures may not add due to rounding, and there could be interactions between measures which impact estimated revenue/savings.

Confidential Advice to Cabinet prepared for consideration of policy options; no direction provided or decisions made

2017 Document Fiscal Planning Program Expense

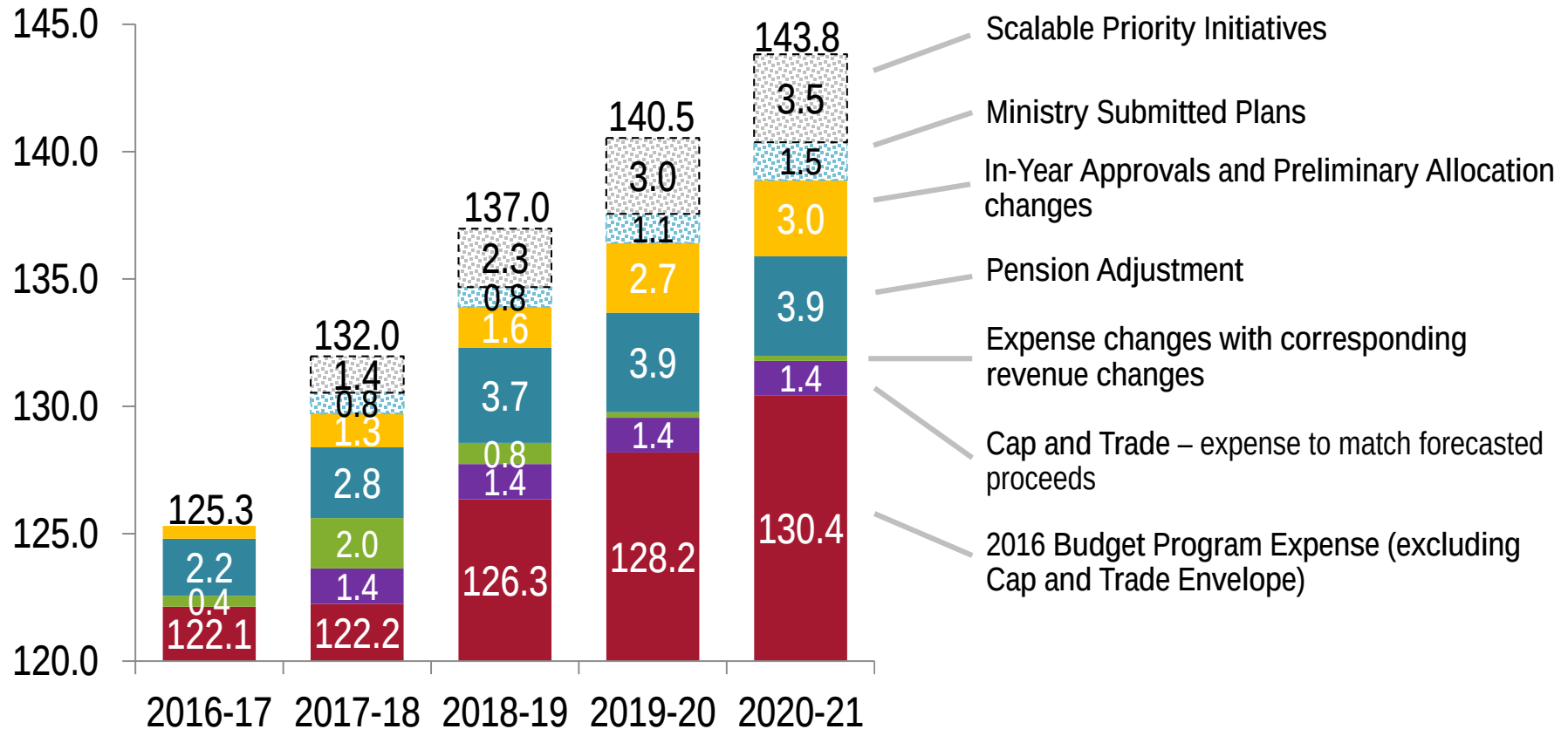
Tuesday, January 17, 2017 3:00pm
PRELIMINARY DRAFT



Program Requests

Program Expense

\$ Billions



- Program Expense growth at 2016 Budget averaged 1.9% per year between 2014-15 and 2018-19.
- Including ministry requests, average program expense growth is 3.3% between 2014-15 and 2020-21. Adding in interest on debt, the total expense grows at 3.3% over the same period.
- Additional electricity relief could increase the program expense growth rate to 3.6% between 2014-15 and 2020-21.

Pressures: Ministry Submitted Plans

2017-18

\$ Millions	2017-18	2018-19	2019-20	2020-21
TOTAL FUZZY BLUE	813	781	1,145	1,488
<i>Need to do items</i>				
Health at 3%	-	242	570	927
MAG, MCSCS Annualize Justice & Corrections reforms	77	76	59	60
MCYS Child Welfare (Fetal Alcohol and legislative component)	17	16	23	42
MTO Presto funding for TTC	27	45	46	48
Capital Re-profiling (MTO Highway Expansion/Rehab, GO Transit, Municipal Projects)	112	52	10	(1)
Other changes (consolidations, re-profile operating)	(37)	(99)	(37)	(87)
Total Non-Discretionary Items	196	328	671	989
<i>To Consider</i>				
MOI Safe & Sustainable Buildings and demolition	45	48	34	37
MCSCS – Class Action Resource Team	16	16	11	11
MOECC initiatives (e.g. Great Lakes Science, Lab Relocations)	15	23	25	13
New Capital Requests (e.g., Halton Courthouse, Correctional Facilities)*	-	-	-	-
MNDM initiatives (e.g. ONTC)	16	17	20	21
Ministry capacity request (FTEs and associated funding)	57	58	50	45
Other changes	3	2	(29)	30
Total To Consider	153	164	111	157

*Requests with long-term fiscal obligations. Total project costs for the Halton Courthouse is \$677M and the new correctional facilities is \$2.7B

Need to Do
24%

Consider
19%

Manage from
Within
26%

Track as Risks
31%

Pressures: Ministry Submitted Plans

2017-18

\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Manage from Within</i>				
Requests for relief from boulder savings target	21	62	79	73
MEDG/MRIS pressures (e.g. Communitech, Social Enterprise Fund)	16	19	21	19
Clean Water and Wastewater Provincial contribution	135	-	-	-
Various small requests without offsets	40	38	45	32
Total Manage from Within	212	119	145	124
<i>Track as risks</i>				
8% Electricity Rebate forecast risk	94	96	196	196
Social Assistance forecast risk	145	52	-	-
MCYS and MCSS capital initiatives	14	22	22	22
Total Track as risks	252	171	218	218

Need to Do
24%

Consider
19%

Manage from
Within
26%

Track as Risks
31%

Pressures: Scalable Options

\$ Millions	2017-18	2018-19	2019-20	2020-21
TOTAL SCALABLE OPTIONS (HIGH OPTION)	1,385	2,243	2,931	3,405
<i>Fund Now</i>				
Highly Skilled Workforce	232	281	313	323
<i>Medium option (for discussion)</i>	<i>176</i>	<i>199</i>	<i>208</i>	<i>180</i>
Youth Jobs Strategy	80	80	80	80
<i>Low option</i>	<i>40</i>	<i>40</i>	<i>40</i>	<i>40</i>
Child Care Expansion	232	421	610	799
<i>Low option (with assumptions for out-years)</i>	<i>94</i>	<i>211</i>	<i>450</i>	<i>799</i>
Black Youth Action Plan	6	19	19	19
<i>Medium option</i>	<i>5</i>	<i>13</i>	<i>14</i>	<i>14</i>
Transitioning Adults with Special Needs	66	82	91	103
<i>Medium option</i>	<i>46</i>	<i>82</i>	<i>91</i>	<i>103</i>
Advancing Transformation in Dev. Services	125	298	495	666
<i>Low option (assumes policy review of program)</i>	<i>89</i>	<i>89</i>	<i>89</i>	<i>89</i>
GO Transit Operating Subsidy	56	104	149	156
<i>Low option</i>	<i>24</i>	<i>40</i>	<i>66</i>	<i>38</i>
Going Global Export Strategy	14	13	22	22
<i>Low option</i>	<i>9</i>	<i>11</i>	<i>16</i>	<i>16</i>
Business Growth Initiative*	36	66	84	59
<i>Low option</i>	<i>11</i>	<i>31</i>	<i>39</i>	<i>8</i>
Retirement home sprinklers	15	22	4	-
<i>Low option</i>	<i>7</i>	<i>10</i>	<i>3</i>	<i>-</i>
Improving Refugee Outcomes	2	5	5	5
<i>Fund for two years</i>	<i>2</i>	<i>5</i>	<i>-</i>	<i>-</i>
Budget Talks	3	-	-	-
<i>Fund at 100%</i>	<i>3</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total Fund Now	867	1,391	1,873	2,232
Total Fund Now	506	730	1,016	1,316

continued ...

**The combined total of the Going Global, BGI and JPF requests is \$60M in 2017-18, \$89M in 2018-19, \$117M in 2019-20 and \$91M in 2020-21.*

Pressures: Scalable Options

\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Consider Funding</i>				
Senior Comm. Grants/Elderly Person Centres	5	6	6	6
Low option	2	3	3	3
OSAP	64	76	80	85
Exempt RESPs, increase support for Indigenous learners	39	41	43	45
Income Security Reform	134	285	395	400
Low option (2% social assistance rate increase)	70	133	139	141
Basic Income	50	50	50	50
Low/Medium option	25	25	25	25
Additional Corrections Reform funding	47	143	155	155
Placeholder [more work required on staffing models]	32	72	76	76
Project Momentum*	89	90	77	58
placeholder in contingency fund	89	90	77	58
Total Consider Funding	389	650	763	754
Total Consider Funding	258	373	371	357
<i>To Consider Not Funding</i>				
Health at an additional 0.2% to total 3.2%	104	215	332	456
0.1% option	52	107	166	228
JPF Enhancement	10	10	10	10
Do not fund	-	-	-	-
Ontario Place	13	-	-	-
Do not fund	-	-	-	-
Ontario 150 – additional funding	50	25	-	-
Do not fund	-	-	-	-
Total Consider Not Funding	177	250	342	466
Total Consider Not Funding	52	107	166	228

continued ...

*Reflects profile for Honda (\$8M in 2017-18, \$10M in 2018-19, \$10M in 2019-20 and \$3M in 2020-21) as well as potential agreements for Ford and Toyota

Pressures: Scalable Options

\$ Millions	2017-18	2018-19	2019-20	2020-21
<i>Do Not Fund</i>				
Serious Fraud Office	2	3	3	3
Do not fund	-	-	-	-
Total Do Not Fund	2	3	3	3
Total Do Not Fund	-	-	-	-
Total Scalable Options (High Option)	1,435	2,293	2,981	3,455
Scenario	816	1,211	1,554	1,901
Savings relative to High Options	619	1,083	1,427	1,554

Unfunded pressures

The following are unfunded initiatives. Adding any of these will require offsetting measures elsewhere (e.g., new revenues or cost savings):

- Additional Electricity Price Mitigation (over and above HST rebate)
- Sharing additional gas tax revenues with municipalities
- Compensation agreements at a rate higher than 1.4% assumed in the fiscal plan (impact to be determined)
- Cost Matching for Phase 2 Federal Infrastructure Funding (\$2.5B over four years)
- National Housing Strategy (Impact to be Determined)
- Health Sector Risks Above 3% Annual Growth (~\$400M in 2017-18)
- Potential Indigenous Land Claim settlements (up to \$80M in 2017-18)
- Resource Revenue Sharing (\$70M annually starting in 2018-19)
- Shortfall in non-tax revenue as some ministries have requested fee reductions

Other outstanding items that could impact the fiscal plan include:

- School Board Enrolment Forecast
- Consolidations Forecast
- Health Capital

Program Expense Tools

Managing Expense

- Revisit in-year approvals (up to \$1.3 billion in 2017-18)
- Limit any increases above allocation (up to \$0.8 billion in 2017-18)
- Maintain a focused view on scalable investments (up to \$1.4 billion in 2017-18)
- Ask ministries to manage new initiatives from within existing allocations
- Defer all new capital investments not in-plan until fall 2017, pending the completion of the Ministry of Infrastructure's prioritization framework for infrastructure investments.

Horizontal Transformation

The government could continue to identify new areas for cross-ministry, horizontal transformation. These could be linked to ideas ministries have submitted through the current PRRT.

- There remain many areas where there are multiple programs providing similar services to the same stakeholders. Further transformation can lead to better outcomes while being more efficient.
- This approach would require significant changes to program design and would require actively engaging stakeholders.
- Given the timelines, such an approach would likely have only a modest impact in 2018-19.

Program Expense Tools

Prioritization

Within each ministry, once ministry and program level measures are put in place the government could initiate a process, using the PRRT Sub-Committee, to require the ministries to identify low performing programs within the existing base to support:

- Realignment of funding to existing commitments/priorities yet to be implemented (alleviating pressures on the Fiscal Plan while moving the policy agenda forward); and
- Providing an opportunity for a portion of the savings to be used corporately.

Program Review with Savings Targets

Drive further transformation to improve outcomes and achieve fiscal objectives through PRRT by launching a four-year systematic program review process, using the PRRT Sub-Committee, to assess the relevance, effectiveness, efficiency, and sustainability of all government programs/base allocations.

From: [McLean, David \(MOF\)](#)
To: [Gadi Mayman](#)
Cc: [Anna Strathy](#)
Subject: PA QAs
Date: Thursday, September 07, 2017 10:33:01 AM
Attachments: [DRAFT-Top Ten OA-Public Accounts-v24_20170906_CLEAN.DOCX](#)
[OAs - PA v2.docx](#)
[Public Accounts Presentation Tips-Aug. 31-17 v1 ad.docx](#)
[PA - Technical Briefing - Subject Matter Experts List -v3.docx](#)

FYI - I've attached MOF and TBS public accounts comms products (TBS pw: Ontario150).

PUBLIC ACCOUNTS 2016-17

Top Media Qs & As

September 6, 2017

1. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of \$82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by \$24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is \$3.3 billion lower than projected in the 2016 Budget. It is also \$0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

- 5. The government is claiming the deficit has been reduced to \$1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than \$2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than \$1B too "optimistic". Isn't the government really hiding a \$3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of \$1 billion is \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary.

The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, 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 reserve has been set at \$0.6 billion in 2017-18, \$0.6 billion in 2018-19, and \$0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of \$19.3 billion, to a projected \$1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by \$6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. . How is the government preparing for this and will this affect your ability to maintain a balanced

budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately \$300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023-24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of \$260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about \$400 million in 2017-18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to \$6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was \$141.7 billion, down \$0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at \$56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has

invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- \$26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- \$16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- \$10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- \$4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

**Ontario Public Accounts
Sept. 7, 2017
Q&As**

Key Messages:

- The Ontario economy remains strong and has continued to grow and create jobs in an uncertain global environment.
- This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$0.5 billion lower than the interim projection in the 2017 Budget.
- Balancing the budget means the government can invest more in the programs and services that people rely on.

Q&As:

What is Ontario's fiscal outlook? Has it changed since you released the 2017 Budget?

In 2010 we made a commitment to restore balance in 2017–18 and we delivered on that commitment. We are also projecting continued balance in both 2018–19 and 2019–20.

This year's Public Accounts show that Ontario's deficit for last year was \$991 million — \$3.3 billion lower than projected in the 2016 Budget and \$0.5 billion lower than the interim projection in the 2017 Budget.

Balancing the budget means the government can invest more in the programs and services that people rely on.

What is the current outlook for the Ontario economy?

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

How does the Bank of Canada interest rate increase affect economic growth in Ontario?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost. That cost is also impacted by other factors, including revisions to the U.S. Federal Funds Rate.

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Didn't the FAO say that the Province's economic growth and revenue projections are too optimistic?

Over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth outpacing all the G7 countries over the last three years.

Since the FAO released their post-Budget analysis most private-sector economists have revised up their forecast for Ontario real GDP growth, reflecting the strength of the Ontario economy.

According to the average of private-sector forecasts, Ontario real GDP growth in 2017 has risen to 2.8% from 2.4% at the time of the Budget. As well, over the next four years Ontario real GDP growth is expected to average 2.3% annually, up from 2.1% annually at the time of the Budget. The outlook for nominal GDP growth has seen a larger improvement.

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

Public Accounts Technical Briefing Tips for Presenting

August 31, 2017

Top Tips:

- Get the details out but do not embellish and ***when in doubt, leave it out.***
- Be conversational in your messages and tone.
- Do NOT use jargon, technical language or acronyms.
- Do not repeat negatives.
- Do not speculate on a hypothetical question.
- Do not answer a question you don't fully understand.
 - o It's ok to ask for clarification from the reporter and Do NOT answer something you're not 100% sure of.
 - o If you do not have the response, you may advise that the matter needs to be followed up through email and the reporter will get the requested information.
- If caught off guard, breathe, listen, and work to understand the question, or ask for clarification.
 - o Ask the questioner 'Excuse me' or 'I beg your pardon?'
 - o Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'
- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).
- Get to the point right away.
- ***Practice!***

Body Language, Tone:

- Be aware of how you come across.
- Have good eye contact with reporter asking the question.

- Be friendly and cooperative.
- Remember to breathe deeply and speak slowly.
 - o Controlling your breathing helps deal with the stress.
 - o Take several deep breaths as you sit down and get organized.
- Use your hands while talking to look natural and help release anxiety.
- Avoid involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.
- Avoid repeating negative words that are used in questions. Doing so indicates you accept the negative premise.

What-Ifs:

1. What if you don't know the answer, but a colleague who is with you may know it?
 - If you need help from other panel members, open your response with 'In a moment I'm going to call on my colleague to get into more detail about this...' This gives the other person time to know they'll be called upon.
 - Briefly discuss a related subject, and then pass the question.
2. What if you need to pause?
 - If you have said absolutely everything you need to say, then let there be a pause.
3. What if you don't like what you're saying?
 - Don't feel obligated to complete a sentence or thought. Simply begin the response again.
4. What if it's a "yes or no" question?
 - Unless the question relates to a sensitive issue, skip "yes" or "no" and go right to the message for the area of concern.
5. What if you're interrupted mid-answer?
 - The first time, let it go. The second time, ask that you be allowed to finish your thought.

APPENDIX

Sample Bridging Statements

1. *"We find the more important issue is..."*
2. *"I think it would be more accurate (or correct) to say..."*
3. *"Let me emphasize again..."*
4. *"What matters most in this situation is..."*
5. *"It all boils down to this..."*
6. *"Before we leave this subject, I need to add..."*

PUBLIC ACCOUNTS 2016-17

Technical Briefing

Subject Matter Experts

Subject Matter Expert	Deputy Minister Helen Angus Treasury Board Secretariat	Deputy Minister Scott Thompson Ministry of Finance	ADM Cindy Veinot, Office of the Provincial Controller, TBS	Uros Karadzic Pension Asset Expert Advisory Panel member	Kimberly Marshall* Vice-President, Corporate Services and CFO, IESO <i>*Not on briefing panel; however, will be present at briefing and available for comment</i>	Patricia O'Malley* Pension Asset Expert Advisory Panel chair <i>*Will not be at briefing, but available for reactive media comment via TBS communications</i>
Main Topics	About Public Accounts Key Public Accounts highlights	Summary results: deficit, revenues, reserve	Preparation of financial statements according to PSAB standards Accounting changes: - Broader Public Sector; - Ontario Power Generation and Hydro One Accounting Change; - Pension Asset Accounting; - IESO Market Accounts and Rate-regulated Accounting	Pension Asset Expert Advisory Panel (PAEAP) process PAEAP's position on recognition of asset PAEAP's overall conclusions	IESO accounting changes: - Recognition of market accounts - Rate-regulated accounting IESO interpretation of PSAB standards	Pension Asset Expert Advisory Panel (PAEAP) process PAEAP's position on recognition of asset PAEAP's overall conclusions
Additional Qs	Overall Public Accounts Digital tools/Open Government	Ontario's Fiscal Position: - Balanced budget - Debt - Revenue - Program Spending Trillium Trust FAO Commentary Interest Rates/Borrowing Credit rating: Effect of a qualified opinion	Impact of accounting changes on Public Accounts Ontario's Fair Hydro Plan accounting AG meetings Decision to establish PAEAP IESO Accounting (overview)		Decision to implement IESO accounting changes Opinion of IESO's independent external auditor	

From: Marijana.Corluka@ontario.ca on behalf of [Orsini, Steve \(CAB\)](#)
To: [Veinot, Cindy \(TBS\)](#); [Karen Hughes \(MGS\)](#); [Scott Thompson \(CAB\)](#); [Gadi Mayman](#); [Len Hatzis \(MGS\)](#); [Sean Kearney \(MGS\)](#); [William Bromm \(CAB\)](#); [Helen Angus \(MOHLTC\)](#); [Patrick Monahan \(MAG\)](#)
Cc: [Ken Kandeepan](#); [Angus, Helen \(TBS\)](#)
Subject: Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman, DAG
Attachments: [Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx](#)



Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
 - Number of members
 - Members
 - Chair (and role of chair in decision making)
- Support for panel
 - Report writer
 - Project management
 - Legal support
- Using the results of the report from the Panel
- Other

Composition of Panel



3 Person Panel

(all have confirmed interest)

Accounting expert – **Bill Matthews**
(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

Governance expert – **Murray Gold**
(Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer



- Report writer – requirements:
 - Knowledge of pension accounting and actuarial modelling
 - Writing skills
- Considerations
 - PwC – lead by Lucy Durocher
 - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
 - Knowledgeable on plans and issues
 - Member of PSAB Task Force
 - Panel hires independent consultant
 - OPS will complete pre-work for procurement of another firm

Support for panel – project management



- Short timeline – Report due by December 31, 2016
- Role
 - Coordination and scheduling
 - Liaison with Province
 - Interim reports
 - Coordination with TBS communications re: final report
 - Administrative reporting
- Potential candidates
 - Process in place to identify senior manager/director from OIAD, supported by others as necessary

Support for panel – legal support



- Existing opinions
 - MAG
 - Oslers
 - Koskie Minsky – Ontario vs. BC

- Additional work required
 - Comparison of Ontario plans to New Brunswick Target Benefit Plans
 - Understanding of governance structures for HOOPP and CAATTPP
 - Multi-employer plans vs jointly sponsored plans

Using the result of the report from the panel



- Provision of report to Auditor General
 - Any other contact with AG during the process
 - Panel may invite AG to discuss issue
 - Panel may request written document of AG's position
- Communications strategy
 - Commitment to make the report public
- Use of Deloitte summary if made available
 - May align or conflict with report of panel

Other



- Valuation opinion
 - Only OTPP? Expected increase in value of OPSEU asset – less than \$250 million
 - Start as soon as panel completes its work – procurement timing
- Responding to AG's 2016 Report -- Chapter 2
 - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work
- Meeting with PSAB Task Force on employee future benefits -- timing

APPENDIX – POTENTIAL PANEL MEMBERS -- BIOS

Potential panel members



Name	Accounting Expertise	Actuarial Expertise	JSPG Governance Expertise	Interest confirmed
Bill Matthews (Comptroller General – Canada)	Yes			Yes
Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			No
Sheila Fraser (former Federal Auditor General)	Yes			No
David Smith (former PwC Chairman)	Yes			No
Wayne Strelloff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No

Bill Mathews – Comptroller General of Canada, PSAB Board Member



Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force



Uros Karadzic is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

M&A transaction and integration, supporting clients by clearly identifying and measuring risks and costs. He also advised on appropriate measures to reduce those costs, focusing on post-acquisition funding requirements.

Murray Gold – Koskie Minsky



Murray Gold is a senior pension and benefits partner (see: Chambers Canada 2017 Rankings) with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trustee pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

Murray Gold is a Fellow of the Ontario Teachers' Federation, an honor in recognition of his work in regard to the Ontario Teachers' Pension Plan.

Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan



Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

Mr. Leech is chair of the board of Toronto General and Western Hospital Foundation. He is a member of the board of the MasterCard Foundation and was a founding director of Right To Play International. He has been named Chancellor-designate of Queen's University, effective July 1, 2014 and currently chairs the advisory board of the Queen's School of Business. Mr. Leech also serves on the advisory board for The Learning Partnership, the advisory council for the Toronto Region Board of Trade and the Toronto Financial Services Leadership Council. In addition, Mr. Leech is a member of the government of Ontario's Economic Advisory Panel.

In 2012, Mr. Leech was awarded the Queen's Diamond Jubilee medal in recognition of his work with the True Patriot Love Foundation. In 2013, he co-authored (with Globe and Mail Senior Writer Jacquie McNish) a book on pension reform called *The Third Rail: Confronting our pension failures*. He has announced his retirement effective December 31, 2013.

Wayne Strelloff, FCPA, FCA – former Auditor General



Mr. Strelloff has served as both the Auditor General of British Columbia (2000-2006) and the Provincial Auditor of Saskatchewan (1990-2000). He was the Assistant Director of Public Sector Accounting and Auditing at the Canadian Institute of Chartered Accountants (CICA), contributing to the initial development of ground breaking professional accounting and auditing standards for the public sector.

Mr. Strelloff has consistently worked to strengthen public sector governance, management and accountability practices. He has served on many national organizations including as a member and governor of the CCAF (formerly the Canadian Comprehensive Auditing Foundation), as the inaugural chair of the Canadian Council of Legislative Auditors Planning and Coordinating Committee and as a member of the CICA's Public Sector Accounting Board.

Since retirement in 2006, he has served as the inaugural Chair of the Quality Worklife/Quality Healthcare Collaborative, a nationwide group of 12 Canadian health organizations dedicated to developing an evidence-informed framework and action strategy to ensure a healthier Canadian public health workplace and, thus, improving the quality of patient care; he has served as a member of the Health Council of Canada's Value for Money Steering Committee; and he has advised senior officials in the public and private sectors on various governance, management and accountability matters.

Mr. Strelloff received B.A., B.Comm. and M.Sc. degrees from the University of Saskatchewan. He obtained his C.A. at Peat Marwick Mitchell (now KPMG).

In 1992, Mr. Strelloff was awarded the Commemorative Medal for the 125th Anniversary of Confederation of Canada in recognition of his significant contributions to compatriots, the community and to Canada. In 2003, he was recognized by the Institute of Chartered Accountants of British Columbia for his contribution to the accounting profession, by naming him a Fellow and awarding him the FCA designation.

Andrew Fung – Morneau Shepell



Andrew Fung, FSA, FCIA, CFA joined Morneau Shepell on November 10, 2015 as a partner in its Ontario Retirement Solutions Practice.

Prior to joining Morneau Shepell, Mr. Fung was a Senior Vice President at one of the largest public sector pension plans in Ontario. He has extensive experience in the areas of board governance, stakeholder relations, policy and research, strategy and growth, service and product development, government relations and advocacy, and communications. He is well versed in areas such as pension funding policy and risk management, having practiced as a senior actuary in both an international actuarial firm and a major accounting firm.

Mr. Fung is Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a Chartered Financial Analyst. He has a Bachelor of Mathematics degree (Dean's Honour List) from the University of Waterloo, and is currently enrolled in the Institute of Corporate Directors - Director Education Program.

Anne G.S. Soh - OMERS



Anne Soh is Vice President, Actuarial Services and Plan Actuary at the Ontario Municipal Employees Retirement System (OMERS). She serves as the actuarial advisor to both OMERS Boards of Directors in managing the funding of the OMERS Pension Plans and oversees the in-house actuarial department.

Anne is an actuary with over 20 years of experience in the pension and benefits industry. Prior to joining OMERS, she was a senior consulting actuary at both Mercer and at Watson Wyatt (now Willis Towers Watson), where she provided advice to her clients on funding strategies, plan design, administration and communication issues.

She also serves as the Chair of the Pension Plan Advisory Committee of the Pension Plan of the United Church of Canada and is a pension committee member for the Pension Plan for Employees of Canada's National Ballet School.

Anne is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and holds a Honours BSc from the University of Western Ontario.

Philip Morse – Willis Towers Watson



Philip Morse is a Fellow of the Canadian Institute of Actuaries (CIA), the professional body governing the education, qualification, conduct and work of actuaries in Canada.

He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa



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Lunch will be provided.



OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

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 - Number of members
 - Members
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- Support for panel
 - Report writer
 - Project management
 - Legal support
- Using the results of the report from the Panel
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3 Person Panel

(all have confirmed interest)

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(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

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(Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

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OPCD

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He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa



Darlene Himick received a Ph.D. in Accounting from the University of Calgary and an MBA from Dalhousie University. Professor Himick also earned an LLB from Osgoode Hall Law School, York University and is a member of the Nova Scotia Bar. She was previously an Assistant Professor at the John Molson School of Business, Concordia University. Her teaching interests include financial accounting, managerial accounting, accounting theory, and financial statement analysis. A Charterholder with the CFA Institute, Ms. Himick served for several years as a pension investment consultant before she began her academic career. Among her many current roles, she is a Senior Research Fellow with the Shareholder Association for Research and Education, based in Vancouver, B.C.

Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo



- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

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.

From: Ken Kandeepan
Sent: Tuesday, September 27, 2016 8:50 AM
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 OPG 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 Orenszak (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 Orenszak (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: [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

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Subject: Re: PA

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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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Sent from my iPad

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<Ali.Ghiassi@ontario.ca> wrote:

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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: [Thompson, Scott \(MOF\)](#)
To: [Gadi Mayman](#); [Ghiassi, Ali \(MOF\)](#)
Cc: [Greg Orencsak \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#)
Subject: RE: PA
Date: Tuesday, September 27, 2016 7:32:28 AM

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

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Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
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> Ali Ghiassi
> Chief of Staff
> Minister of Finance

> 416.948.5409

>

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: [Ghiassi, Ali \(MOF\)](#)
To: [Scott Thompson \(CAB\)](#); [Gadi Mayman](#)
Cc: [Greg Orencsak \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#)
Subject: RE: PA
Date: Tuesday, September 27, 2016 9:27:18 AM

Thanks all.

We need to be clear with the Premier this morning about the consequence of this move for the fiscal plan both going forward but also its impact on 14-15 and the proposed adjustment to \$11.3B deficit.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.314.7479

-----Original Message-----

From: Thompson, Scott (MOF)
Sent: September-27-16 7:32 AM
To: Mayman, Gadi (OFA); Ghiassi, Ali (MOF)
Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
Subject: RE: PA

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Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
Subject: Re: PA

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> Ali Ghiassi

> Chief of Staff

> Minister of Finance

> 416.948.5409

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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: [Schuurman, Tim \(MOF\)](#)
To: [Veinot, Cindy \(TBS\)](#); [Tara McGrath \(MOF\)](#); [Selena Esmail \(MOF\)](#); [Gadi Mayman](#); [Nadine Petsche \(MOF\)](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#)
Cc: [Alana Anderson \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Birks, Ryan \(MOF\)](#); [Patrick Laughton \(MOF\)](#)
Subject: RE: Pension Extract
Date: Saturday, October 29, 2016 11:08:00 AM
Attachments: [image004.png](#)
[image003.png](#)

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



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Office of the Budget
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From: [Schuurman, Tim \(MOF\)](#)
To: [Veinot, Cindy \(TBS\)](#); [Nadine Petsche \(MOF\)](#)
Cc: [Gadi Mayman](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#); [Emma Lindquist \(MOF\)](#)
Subject: RE: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 6:33:47 PM
Attachments: [image002.png](#)
[image003.png](#)

Thanks Cindy. I also made some small tweaks at the end of your sentence....hope that's ok.

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: Veinot, Cindy (TBS)
Sent: November-01-16 6:31 PM
To: Schuurman, Tim (MOF); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

This cautious approach to forecasting the pension adjustment results in an additional estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19 from the 2016 Budget forecast for pension expense. [\[np1\]](#)

A couple of additional edits to one sentence copied above (in green) – I don't think it was clear that the amounts we are referring to are in addition to those included in the 2016 Budget.

Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:26 PM
To: Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

Our edits are included below in red font.

Thanks Nadine and Cindy.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.



From: Petsche, Nadine (TBS)

Sent: November-01-16 5:14 PM

To: Schuurman, Tim (MOF)

Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF)

Subject: Revised wording for Pension Asset Narrative

Tim,

Further to the discussion this morning, below is the revised text for Chapter 2B on Transparency and Accountability. This version has been reviewed by Cindy.

Nadine

Pensions reporting

In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago.

The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional \$10.7 billion being added to the net debt and accumulated deficit and an increase of \$1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term [fiscal outlook provided in this Document](#) also reflects a cautious approach to [forecasting the pension adjustment in each year](#). This cautious approach to forecasting the pension adjustment results in an estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19. [\[np2\]](#)

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension 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 Panel's recommendations will help inform the [development of the 2017 Budget](#) and the

Province's future accounting treatment for net pension assets.

OFA to onfirm if wording appropriate
OFA to confirm if wording appropriate

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From: [Veinot, Cindy \(TBS\)](#)
To: [Tim Schuurman \(MOF\)](#); [Nadine Petsche \(MOF\)](#)
Cc: [Gadi Mayman](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#); [Emma Lindquist \(MOF\)](#)
Subject: RE: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 6:30:43 PM
Attachments: [image001.png](#)

This cautious approach to forecasting the pension adjustment results in an additional estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19 from that previously forecast in the 2016 Budget. [\[np1\]](#)

A couple of additional edits to one sentence copied above (in green) – I don't think it was clear that the amounts we are referring to are in addition to those included in the 2016 Budget.

Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:26 PM
To: Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

Our edits are included below in red font.

Thanks Nadine and Cindy.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
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Toronto ON M7A 1Z1
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Subject: Revised wording for Pension Asset Narrative

Tim,
Further to the discussion this morning, below is the revised text for Chapter 2B on Transparency and Accountability. This version has been reviewed by Cindy.
Nadine

Pensions reporting

In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago.

The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional \$10.7 billion being added to the net debt and accumulated deficit and an increase of \$1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term **fiscal outlook provided in this Document** also reflects a cautious approach to **forecasting the pension adjustment in each year. This cautious approach to forecasting the pension adjustment results in an estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19. [np2]**

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension 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 Panel's recommendations will help inform the **development of the 2017** Budget and the Province's future accounting treatment for net pension assets.

OFA to onfirm if wording appropriate
OFA to confirm if wording appropriate

Office of the Budget
MINISTRY of FINANCE

From: [Schuurman, Tim \(MOF\)](#)
To: [Nadine Petsche \(MOF\)](#)
Cc: [Gadi Mayman](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#); [Veinot, Cindy \(TBS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#); [Emma Lindquist \(MOF\)](#)
Subject: RE: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 6:25:43 PM
Attachments: [image001.png](#)

Our edits are included below in red font.

Thanks Nadine and Cindy.

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: Petsche, Nadine (TBS)
Sent: November-01-16 5:14 PM
To: Schuurman, Tim (MOF)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
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forecasting the pension adjustment in each year. This cautious approach to forecasting the pension adjustment results in an estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19. [\[np1\]](#)

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The Panel's recommendations will help inform the **development of the 2017** Budget and the Province's future accounting treatment for net pension assets.

OFA to confirm if wording appropriate

Office of the Budget
MINISTRY of FINANCE

From: [Ken Kandeepan](#)
To: [Nadine Petsche \(MOF\)](#); [Tim Schuurman \(MOF\)](#); [Veinot, Cindy \(TBS\)](#)
Cc: [Gadi Mayman](#); [Karen Hughes \(MGS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#)
Subject: RE: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 5:21:07 PM

Nadine/Cindy

Pls note that given that the pension adjustment does not impact on the forecast deficit over the medium term outlook, I don't believe we require the phrase: "as well as the corresponding net debt and accumulated deficit amounts".

The impact on the accumulated deficit and net debt is limited to the \$10.7 B in the Public Accounts

Thanks

Ken k

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, November 01, 2016 5:14 PM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ronald Jaikaran (MOF) <Ronald.Jaikaran@ontario.ca>; Alana Anderson (MOF) <Alana.Anderson@ontario.ca>
Subject: Revised wording for Pension Asset Narrative

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The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional \$10.7 billion being added to the net debt and

accumulated deficit and an increase of \$1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term Outlook also reflects a cautious approach to forecasting pension expense each year as well as the corresponding net debt and accumulated deficit amounts. [\[np1\]](#)

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension 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 Panel's recommendations will help inform the preparation of the Budget and the Province's future accounting treatment for net pension assets.

OFA to confirm if wording appropriate

From: [Veinot, Cindy \(TBS\)](#)
To: [Tim Schuurman \(MOF\)](#); [Nadine Petsche \(MOF\)](#)
Cc: [Gadi Mayman](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#); [Emma Lindquist \(MOF\)](#)
Subject: RE: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 6:34:50 PM
Attachments: [image001.png](#)

Agreed -- Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:34 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

Thanks Cindy. I also made some small tweaks at the end of your sentence....hope that's ok.

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: Veinot, Cindy (TBS)
Sent: November-01-16 6:31 PM
To: Schuurman, Tim (MOF); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

This cautious approach to forecasting the pension adjustment results in an additional estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19 from the 2016 Budget forecast for pension expense. [\[np1\]](#)

A couple of additional edits to one sentence copied above (in green) – I don't think it was clear that the amounts we are referring to are in addition to those included in the 2016 Budget.

Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:26 PM
To: Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)

Subject: RE: Revised wording for Pension Asset Narrative

Our edits are included below in red font.

Thanks Nadine and Cindy.

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: Petsche, Nadine (TBS)

Sent: November-01-16 5:14 PM

To: Schuurman, Tim (MOF)

Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF)

Subject: Revised wording for Pension Asset Narrative

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Pensions reporting

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Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term **fiscal outlook** provided in this Document also reflects a cautious approach to forecasting the pension adjustment in each year. This cautious approach to forecasting the pension adjustment results in an estimated potential impact of \$2.2 billion in 2016-17, \$2.8 billion in 2017-18 and \$3.7 billion in 2018-19. [\[np2\]](#)

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also

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The Panel's recommendations will help inform the **development of the 2017** Budget and the Province's future accounting treatment for net pension assets.

OFA to onfirm if wording appropriate
OFA to confirm if wording appropriate

Office of the Budget
MINISTRY of FINANCE

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*



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.

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~~ {suggest deleting 16-17 reference} and begin to decline in 2017–18 – supporting greater sustainability in Ontario's debt management.

Looking forward, ~~given~~ 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 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.

Thank you.

We will now take your questions.

Sent from my BlackBerry 10 smartphone on the Rogers network.

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 9:40:22 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

My suggestion is that we take out the sentence on the net debt to GDP ratios. “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”.

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

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
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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From: Ingram, Kelsey (MOF)
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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.

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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.

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

My suggestion is that we take out the sentence on the net debt to GDP ratios. "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".

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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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To: McLean, David (MOF); Ize-Dukuze, Marilyn (MOF)
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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.

From: [Ken Kandeepan](#)
To: [Tim Schuurman \(MOF\)](#); [David McLean \(MOF\)](#); [Brian Lewis \(MOL\)](#); [Gadi Mayman](#)
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.
Toronto ON M7A 1Z1
Tel: 416-327-0173



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.

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~~ {suggest deleting 16-17 reference} and begin to decline in 2017–18 – supporting greater sustainability in Ontario's debt management.

Looking forward, ~~given~~ 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 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.

Thank you.

We will now take your questions.

Sent from my BlackBerry 10 smartphone on the Rogers network.

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

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 Orenacsak (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 Orenacsak (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: [Scott Thompson \(CAB\)](#); [Ghiassi, Ali \(MOF\)](#)
Cc: [Greg Orenszak \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 7:19:01 AM

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
To: Ghiassi, Ali (MOF)
Cc: Greg Orenszak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
Subject: Re: PA

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>
> Ali Ghiassi
> Chief of Staff
> Minister of Finance
> 416.948.5409
>

From: [Thompson, Scott \(MOF\)](#)
To: [Ghiassi, Ali \(MOF\)](#)
Cc: [Greg Orencsak \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#); [Gadi Mayman](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 6:50:14 AM

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.

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> Ali Ghiassi
> Chief of Staff
> Minister of Finance
> 416.948.5409
>

From: [Jancik, Mike \(TBS\)](#)
To: [Ghiassi, Ali \(MOF\)](#); [Scott Thompson \(CAB\)](#); [Gadi Mayman](#)
Cc: [Greg Orencsak \(MOF\)](#); [Tim Schuurman \(MOF\)](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 9:27:41 AM

Agree

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Ghiassi, Ali (MOF)
Sent: Tuesday, September 27, 2016 9:27 AM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA)
Cc: Orencsak, Greg (TBS); Jancik, Mike (TBS); Schuurman, Tim (MOF)
Subject: RE: PA

Thanks all.

We need to be clear with the Premier this morning about the consequence of this move for the fiscal plan both going forward but also its impact on 14-15 and the proposed adjustment to \$11.3B deficit.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.314.7479

-----Original Message-----

From: Thompson, Scott (MOF)
Sent: September-27-16 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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Cc: Greg Orencsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
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> Minister of Finance
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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: [Gadi Mayman](#)
To: [Ken Kandeepan](#)
Cc: [Christina Zhang](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 9:07:26 AM

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

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To: Scott Thompson (CAB); Ghiassi, Ali (MOF)
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Subject: Re: PA

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Ali Ghiassi

Chief of Staff

Minister of Finance

416.948.5409

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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: Re: PA
Date: Tuesday, September 27, 2016 7:56:15 AM

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

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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

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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 7:48:40 AM

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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: [Schuurman, Tim \(MOF\)](#)
To: [Scott Thompson \(CAB\)](#); [Gadi Mayman](#); [Ghiassi, Ali \(MOF\)](#)
Cc: [Greg Orencsak \(MOF\)](#); [Mike Jancik \(OPO\)](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 7:44:32 AM

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

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From: [Gadi Mayman](#)
To: [Greg Orencsak \(MOF\)](#)
Cc: [Scott Thompson \(CAB\)](#); [Ghiassi, Ali \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 7:42:03 AM

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:

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Sent: Tuesday, September 27, 2016 6:50 AM

To: Ghiassi, Ali (MOF)

Cc: Greg Orenacsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman

Subject: Re: PA

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From: [Orencsak, Greg \(TBS\)](#)
To: [Gadi Mayman](#)
Cc: [Scott Thompson \(CAB\)](#); [Ghiassi, Ali \(MOF\)](#); [Mike Jancik \(OPO\)](#); [Tim Schuurman \(MOF\)](#)
Subject: Re: PA
Date: Tuesday, September 27, 2016 7:24:53 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.

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

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

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Cc: Greg Orenacsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF)
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Sent: Tuesday, September 27, 2016 6:50 AM
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Cc: Greg Orenacsak (MOF); Mike Jancik (OPO); Tim Schuurman (MOF); Gadi Mayman
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Ali Ghiassi

Chief of Staff

Minister of Finance

416.948.5409

From: [Hughes, Karen \(TBS\)](#)
To: [Tim Schuurman \(MOF\)](#); [Veinot, Cindy \(TBS\)](#); [Tara McGrath \(MOF\)](#); [Selena Esmail \(MOF\)](#); [Gadi Mayman](#); [Nadine Petsche \(MOF\)](#); [Ken Kandeepan](#)
Cc: [Alana Anderson \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Birks, Ryan \(MOF\)](#); [Patrick Laughton \(MOF\)](#)
Subject: Re: Pension Extract
Date: Saturday, October 29, 2016 1:51:42 PM
Attachments: [image004.png](#)
[image003.png](#)

Thanks Tim - good idea to spend some time and align all of this prior to sign off.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schuurman, Tim (MOF)

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
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From: [Petsche, Nadine \(TBS\)](#)
To: [Tim Schuurman \(MOF\)](#)
Cc: [Gadi Mayman](#); [Ken Kandeepan](#); [Karen Hughes \(MGS\)](#); [Veinot, Cindy \(TBS\)](#); [Selena Esmail \(MOF\)](#); [Christina Zhang](#); [Patrick Laughton \(MOF\)](#); [Hosick, Sarah \(TBS\)](#); [Birks, Ryan \(MOF\)](#); [Ronald Jaikaran \(MOF\)](#); [Alana Anderson \(MOF\)](#)
Subject: Revised wording for Pension Asset Narrative
Date: Tuesday, November 01, 2016 5:13:40 PM

Tim,
Further to the discussion this morning, below is the revised text for Chapter 2B on Transparency and Accountability. This version has been reviewed by Cindy.
Nadine

Pensions reporting

In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago.

The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional \$10.7 billion being added to the net debt and accumulated deficit and an increase of \$1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term Outlook also reflects a cautious approach to forecasting pension expense each year as well as the corresponding net debt and accumulated deficit amounts. [\[np1\]](#)

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension 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 Panel's recommendations will help inform the preparation of the Budget and the Province's future accounting treatment for net pension assets.

[\[np1\]](#)OFA to confirm if wording appropriate

From: Erika.Hartog@ontario.ca on behalf of [Angus, Helen \(TBS\)](#)
To: [Karen Hughes \(MGS\)](#); [Donaldson, Mark \(MOHLTC\)](#); [Sofie DiMuzio \(MGS\)](#); [Bryant Sullivan \(MAG\)](#); [Hosick, Sarah \(TBS\)](#); [Kyle MacIntyre \(MOF\)](#); [Dane Nelson \(MOF\)](#); [Patrick Laughton \(MOF\)](#); [Jason Pichelli \(MOF\)](#); [Gabrielle Gallant \(OMAF\)](#); [Christine Poopalapillai \(MRI\)](#); [Ostergard, Matt \(TBS\)](#); [Erin Ovenden \(MAA\)](#); [Mark Donaldson \(MOF\)](#); [Scott Thompson \(CAB\)](#); [Ghiassi, Ali \(MOF\)](#); [Giroux Namian, Orli \(MOF\)](#); [Elizabeth Mendes \(MOF\)](#); [Tim Schuurman \(MOF\)](#); [Gadi Mayman](#); [Anna Strathy](#); [Doose, Ann \(TBS\)](#); [Martin Schlaepfer \(MOF\)](#); [Hillary Armstrong \(ENERGY\)](#)
Cc: [Veinot, Cindy \(TBS\)](#); [Kate Vrancart \(MCS\)](#); [Serge Imbrogno \(ENERGY\)](#); [Matt Whittington \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#); [Carolyn Calwell \(MCSS\)](#); [Jordan Penic](#); [Kim Marshall \(Kim.Marshall@ieso.ca\)](#) ([Kim.Marshall@ieso.ca](#)); [Uros Karadzic](#)
Subject: Tech Deck Review Regroup

Sent Sept 06: Teleconference added for Cindy: 416-212-8011 or 1-866-602-5461, ID 8228801#

From: [Orencsak, Greg \(TBS\)](#)
To: [Kyle MacIntyre \(MOF\)](#); [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 \(EDU\)](#); [Kelsey Ingram \(OPO\)](#); [William Bromm \(CAB\)](#); [Andrew Bevan \(OPO\)](#); [Karim Bardeesy \(OPO\)](#); [Michael Maddock \(ENE\)](#); [Rebecca MacKenzie \(GHLO\)](#); [McEachern, Gillian \(OPO\)](#); [Bill Killorn \(OPO\)](#); [Jacob Mkysartinian \(MOHLTC\)](#); [Ostergard, Matt \(TBS\)](#); [Jason Pichelli \(MOF\)](#); [Alicia Farrow \(CAB\)](#)
Subject: Technical briefing deck
Date: Sunday, October 02, 2016 5:18:42 PM
Attachments: [CF6E4966-0C0D-4C3D-A7BC-0D12629BB011\[204\].png](#)
[Pension Asset Technical Briefing_Oct 2.v3.ppt](#)

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
416.325.1607 | greg.orencsak@ontario.ca <<mailto:greg.orencsak@ontario.ca>>
Treasury Board Secretariat
[Title: TBS logo]

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TBS



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.

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	<u>(8.5)</u>	<u>(5.0)</u>	<u>(10.3)</u>	<u>3.5</u>	-41.2%
Net Debt		(305.2)	(284.6)		
Accumulated Deficit		(202.7)	(187.5)		

*unaudited

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.

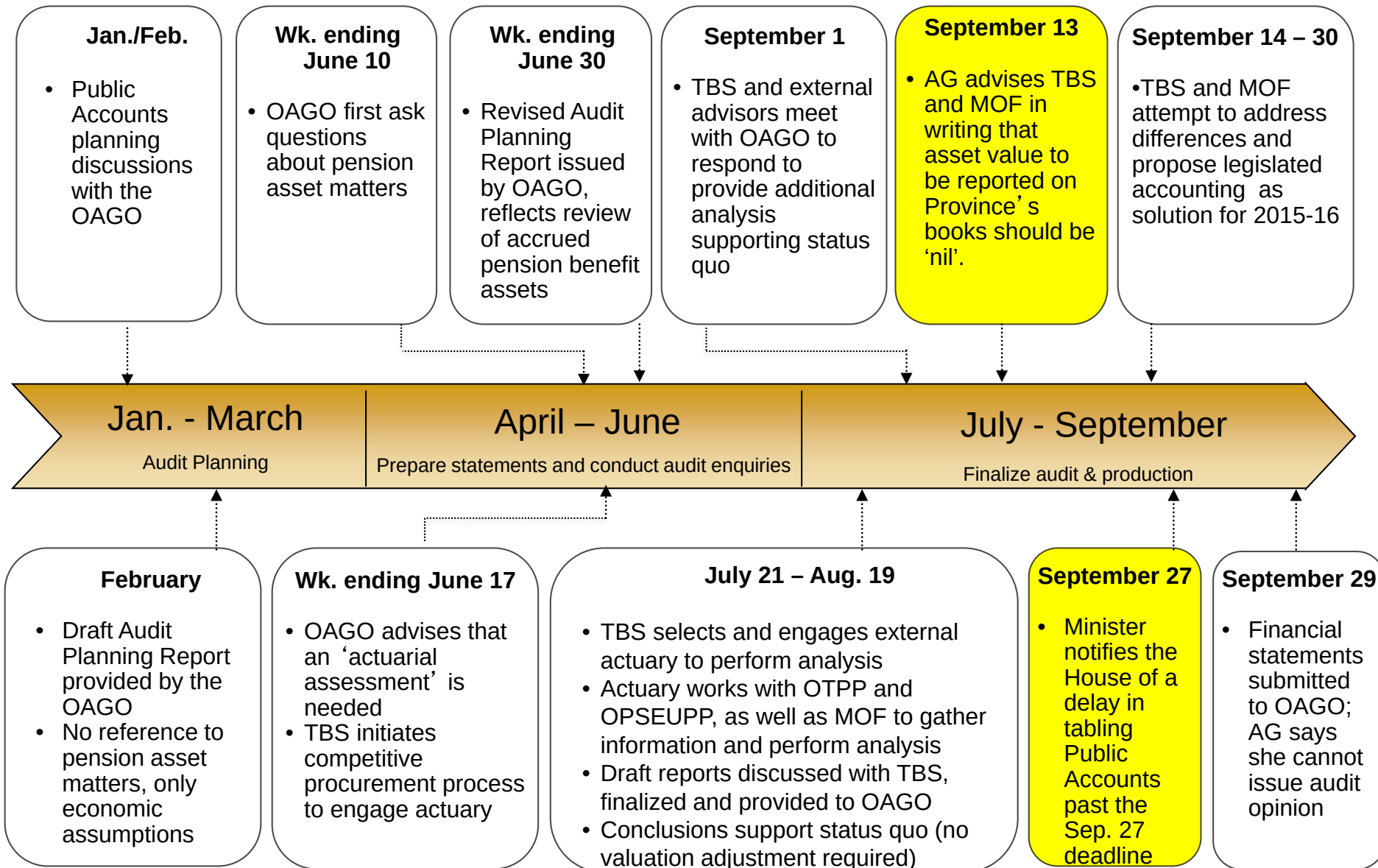
Auditor General's Position

- 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.

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.

Timeline



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.

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.

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)

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.

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: [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.