Public Accounts 2016-17

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Ontario

NEWS

Treasury Board Secretariat

Ontario's Deficit $3.3 Billion Lower Than Projected

Province Beats Deficit Target Eight Years in a Row

NEWS September XX, 2017

The Public Accounts of Ontario for 2016-17 show Ontario's deficit is $1 billion. In eight years, Ontario has reduced its deficit by $18.3 billion and has balanced its budget.

As a result of growth in revenue and lower spending, the deficit is $3.3 billion lower than projected in the 2016 Budget and $500 million lower than the interim projection in the 2017 Budget. Other highlights from this year's Public Accounts include:

- Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.7 per cent, up 0.5 per cent from the 2016 Budget
- Interest on debt of $11.7 billion, down $700 million from the 2016 Budget
- Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget
- Total spending of $141.7 billion, down $100 million from the 2016 Budget

Once again, the government is providing new digital tools online to help Ontarians 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

"SUGGESTED QUOTE 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 this year and maintaining a balanced budget in the future. 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

"PLACEHOLDER"
— Charles Sousa, Minister of Finance

QUICK FACTS

- Ontario's annual deficit fell from $19.3 billion in 2009-10 to $1 billion in 2016-17, reflecting an improvement of 95 per cent.
- Total year-over-year spending for government has been held to 1.5 per cent for the past four years.
- 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 legislation and 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 Auditor General's qualified opinion is based on [a different interpretation of accounting methods for net pension assets and recognition of market accounts **OPCD to confirm**]. 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 Budget

Explore the more than 500 open data sets in the Open Data Catalogue

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Ontario

BACKGROUNDER

Treasury Board Secretariat

Accounting Changes to Ontario's Financial Statements

September XX, 2017

Treasury Board Secretariat prepares the Public Accounts in accordance with the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing this year's Public Accounts, Ontario's professional accounting staff adopted 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 jointly sponsored pension plans. 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 about the appropriate application of PSAB 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 on this issue.

After careful study, the independent panel members released their report. It concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements. Ontario has accepted the panel's advice and prepared the 2016-17 financial statements in accordance with public sector accounting standards for pension asset accounting.

Accounting for energy sector government business enterprises

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 Generally Accepted Accounting Principles in the United States. This change was made to meet PSAB requirements.

Accounting for the Independent Electricity System Operator

For the 2016-17 reporting year, the Independent Electricity System Operator (IESO) has adopted rate-regulated accounting. It now also recognizes its market accounts' assets and liabilities in their financial results. 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.
- Recognizing market accounts assets and liabilities better reflects the IESO-administered markets, meaning the payments made to the electricity generators with cash received from the local distribution companies.

These changes are supported by the Office of the Provincial Controller of Ontario and by the IESO's independent auditor, which provided a clean audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, for the first time, in the 2016-17 Public Accounts are presenting revenues and expenses 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, used to be netted against the respective sectors' expenses. This is simply a presentation change and it is fiscally neutral and does not impact the Province's annual deficit, net debt, or accumulated deficit. This change is consistent with PSAB requirements and the reporting practices of other senior Canadian governments.

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Top 10 Media Qs & As

1. **The Auditor General has issued a qualified opinion for the second year in a row. Why can't you get this right?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting 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 accounting methods for net pension assets and recognition of market accounts] **OPCD to confirm**.

   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 we sought out advice from the Pension Asset Expert Advisory Panel. 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 Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements. We agree with the panel and continue to apply the accounting treatment of pension assets that Ontario has used consistently since 2001.

   This year the Independent Electricity System Operator (IESO) has also adopted rate-regulated accounting. This change is supported by the Office of the Provincial Controller and by KPMG, the IESO's independent auditor, which provided a clean audit. **OPCD: Please include list of other North American jurisdictions that have adopted rate-regulated accounting.**

   The Auditor General has expressed her concerns about this accounting change. However 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 $58 million in the 2016-17 accumulated deficit.

2. **The Auditor General is critical of the IESO accounting change. She claims that Public Sector Accounting Standards do not permit rate regulated**

accounting. Is this another example of Ontario's 'funny math'? OPCD to confirm response

Not at all. Canada's Public Sector Accounting Standards are silent on the use of rate regulated accounting. Like all major accounting frameworks, these standards encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

IESO management, their audit committee, their board of directors and their external auditors made the decision to adopt rate-regulated accounting and to recognize the market accounts assets and liabilities in their financial results. 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.
- Recognizing market accounts assets and liabilities better reflects the IESO-administered markets, meaning the payments made to the electricity generators with cash received from the local distribution companies.

It is supported by the Office of the Provincial Controller and by KPMG, the IESO's independent auditor, which provided a clean audit.

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 $58 million in the 2016-17 accumulated deficit.

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 we sought out advice from the Pension Asset Expert Advisory Panel. After careful study, 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 Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements. We agree with the panel and continue to apply the accounting treatment of pension assets that Ontario has used consistently since 2001.

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?

Through 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. Year-over-year spending has been held to 1.5% over the past four years. As a result of growth in revenue and lower spending, the deficit is $3.3 billion lower than projected in the 2016 Budget and $500 million lower than the interim projection in 2017 Budget. In eight years eight years, we have reduced the deficit by $18.3 billion.

5. Is the budget really balanced? Some have said there is actually a structural deficit and that the Province used fancy accounting. OFA to confirm response

The Public Accounts for Ontario show the deficit for 2016-17 is $1 billion. In eight years, we have reduced the deficit by $18.3 billion. As a result of growth in revenue and lower spending, the deficit is $3.3 billion lower than projected in the 2016 Budget and $500 million lower than the interim projection in 2017 Budget. In April 2017, we delivered our first balanced budget since the global recession and we are on track to remain balanced in the future.

We are taking a fair and balanced approach to managing our finances – one that protects and improves the services that matter most to Ontarians. The balanced budget focuses on managing growth in spending and delivering the best possible value for every dollar spent.

The balanced budget and the government's continued focus on capital investment will add to economic growth, helping to lower the net debt-to-GDP ratio to the government's pre-recession level of 27 per cent 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.

6. **Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall. How is the government preparing for this and will this affect your ability to maintain a balanced budget? OFA to confirm response**

   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.

   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 the Bank of Canada would increase interest rates, although this is coming earlier than expected.

   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 assumed that long-term interest rates would rise as we progressed through the fiscal year.

7. **You claim to have balanced the budget yet you keep piling on more debt. Ontario's net debt-to-GDP ratio and debt expense forecasts haven't changed and they're quite substantial. How do you plan to pay down the debt? OFA to confirm response**

   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.

   Debt is incurred primarily for two reasons: to finance deficits and 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 for now and in the future: on average, investing a dollar in public infrastructure in Canada raises GDP by $1.43 in the short term and by up to $3.83 in the long-term[1].

   These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017,

[1] The Centre for Spatial Economics, Broadbent Institute. "The Economic Benefits of Public Infrastructure Spending in Canada." September 2015.

outperforming that of Canada, the U.S. and all other G7 countries.

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

   This year we have made a simple change to how we are reporting revenues and expenses for broader public sector organizations.

   For the first time, Public Accounts are presenting revenues and expenses 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 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 last year's results and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget for BPS organizations will also reflect this presentation change. The AG 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, which all other senior Canadian governments have adopted and used since 2009.

9. **The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on? MOF to confirm response**

   The government began drawing down funds 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 for now and in the future: on average, investing a dollar in public infrastructure in Canada raises GDP by $1.43 in the short term and by up to $3.83 in the long-term[1].

10. **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.

In 2017 the C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.