With/without revised deficit target

We are on track to {meeting our deficit target this year} and balancing the budget next year while helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.

Earlier this fall, the Auditor General proposed that the government change its longstanding approach to the accounting policy for pension assets.

Quite unexpectedly, we found ourselves in the middle of an accounting disagreement over how the governmentand previous Auditor Generals have accounted for pension assets over the past 14 years and the current Auditor General's view on how these assets should now be accounted for. .

To provide clarity, we established an independent panel to review the issue and we are awaiting their report.

Given how recently this came to our attention, the government only has a preliminary estimate of the potential impact the Auditor General's new interpretation would have on the Province's finances. The pension plans have not yet undergone an updated valuation this year to determine what the current impact would be of applying the accounting change to future years.

Out of respect for the Auditor General, and pending the outcome of the panel's review process, we are using the Auditor's proposed accounting approach and incorporating preliminary estimates of the fiscal impact into our numbers.

{The result is a higher deficit than originally planned for 2016-17 ($4.8B).}

Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.

We are able to manage the potential impact as a result of:

- Higher than expected revenue projections, mainly arising from a stronger outlook for economic growth in Ontario for 2016, and
- By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers.

Before the Auditor raised this issue, for the eighth consecutive year we were forecasting a lower deficit target than outlined in the Budget.

Confidential

Our prudent approach to fiscal management coupled with stronger than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs.

This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget.

Stronger revenue Outlook

What: Increase in taxation revenue and GBE revenue

Why:

- 2016 economic growth expected to come in stronger than anticipated at the time of the Budget.
- Higher than anticipated personal and corporate income tax revenues, and continued strength in housing market which results in revenue as well.

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Reserve

What: Using a portion of the reserve

Why:

- This is an unexpected change to the accounting treatment for pension assets that we have encountered for the first time in 14 years.
- The reserve is there to mitigate any unforeseen changes that will impact the fiscal plan -- such as this one.
- We are more than halfway through the year, so we felt that this was an appropriate use of the reserve, rather than diverting spending away from our priorities such as hospitals, electricity relief, investments in school buildings, and moving ahead with adding new childcare spaces.
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Commented [ES1]: OEP to fill in?