

2016-17 Interim Fiscal Outlook

Office *of the* Budget
MINISTRY *of* FINANCE

BPC/Ministers/MMMP

Preliminary Draft – All Numbers To Be Confirmed

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Guiding Principles for 2016-17 Interim Outlook

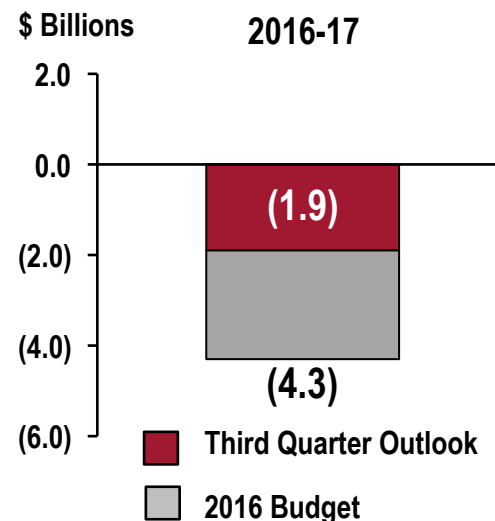
- The 2017 Document will publish a fiscal outlook from 2016-17 through to 2019-20.
- Considerations for landing the 2016-17 interim outlook differ from those to land the medium-term forecast, and include:
 - **Preconditioning Actuals:** the 2016-17 interim outlook provides a final opportunity to precondition year-end actuals that will be published in the 2016-17 Public Accounts.
 - **Demonstrating ongoing fiscal improvement and management:** the interim outlook could demonstrate overachievement on the \$1.9 billion deficit target set out in the Third Quarter Finances, and also show how the government managed in-year spending.
 - **Maintaining prudence:** The interim forecast does not normally include a reserve as the Budget is generally published around the close of the fiscal year. However, a more cautious revenue or interest on debt forecast can be used to provide implicit prudence against year-end changes.

Recap of 2016-17 Third Quarter Outlook

Third Quarter Finances presented a deficit projection of \$1.9 billion, a \$2.4 billion improvement from the 2016 Budget.

- **Total revenue increased to \$133.1 billion, \$2.5 billion higher than the 2016 Budget plan** due to:
 - Higher-than-expected 2015 PIT, 2016 HST and NTR, and a strong housing market.
 - This was partially offset by lower federal transfers and cap and trade proceeds that will be recognized in 2017-18 rather than 2016-17.
- **Program expense increased to \$123.3 billion, \$1.1 billion higher than the 2016 Budget plan**, due to:
 - \$1.7 billion in investments to support: social and affordable housing, post-secondary education, environmental initiatives; electricity cost relief and health pressures.
 - \$0.5 million in contingency funds offsets.
- **Interest on debt expense** was projected to be **\$0.4 billion lower than forecast in the 2016 Budget.**

Third Quarter Fiscal Outlook



\$ Billions	Budget 2016-17	Change	Q3 2016-17
Revenue	130.6	2.5	133.1
Expense			
Programs	122.1	1.1	123.3
Interest on Debt	11.8	(0.4)	11.4
Total Expense	133.9	0.7	134.6
Surplus/(Deficit) Before Reserve	(3.3)	1.8	(1.5)
Reserve	1.0	(0.6)	0.4
Surplus/(Deficit)	(4.3)	2.4	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	(1.3)	38.3

Interim Update: Key Changes Since Third Quarter Finances

- Since the publication of the Third Quarter Finances, additional information has been received and decisions have been made that will be incorporated into the 2017 Document Interim outlook.

Revenue

Interim Update:

Since Q3, 2016-17 estimated revenues increased **\$0.6 billion** due to:

- increased LTT as expected;
- stronger 2016 economic growth;
- non-tax revenue updates.

Total Expense

Interim Update:

Program Expense: \$0.2 billion net increase in program expense related to updated year-end forecasts from ministries and recent approvals. The outlook maintains a \$30 million Contingency Fund as prudence.

Interest on Debt: Additional savings of up to \$0.2 billion.

Reserve

2016 Budget had a \$1.0 billion reserve, which was reduced to \$0.4 billion in the Fall Statement. The interim outlook would normally draw down on the reserve completely to foreshadow a year-end outlook.

Risks and Information To Come for Public Accounts

- In addition to the ongoing difference in the Auditor's approach related to pension accounting, other new information and risks for both revenue and expense could impact the 2016-17 fiscal results between the 2017 Document and the 2016–17 Public Accounts.

Revenue

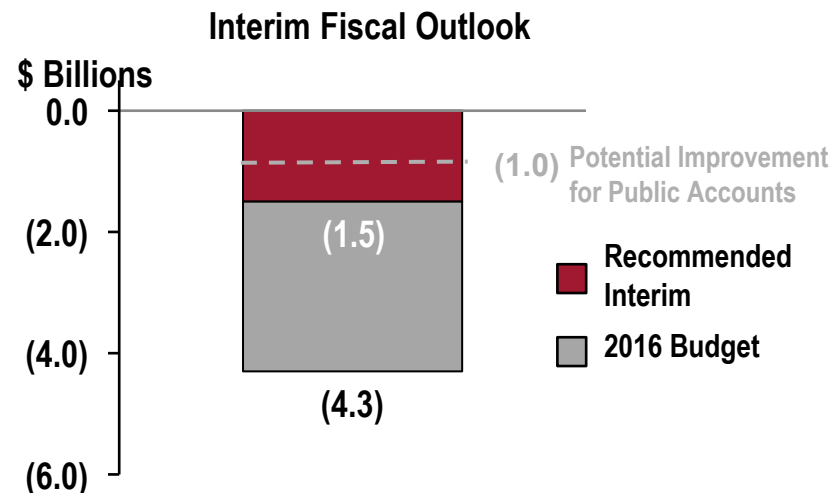
- Forthcoming 2016 tax assessment information, including significant PIT risks (**up to \$1.4 billion**)
- Final outlooks for GBEs (including OPG nuclear funds) and consolidated government business organizations
- Incorporating IFRS accounting for first time
- Ministry non-tax revenues
- Potential revisions to the 2016 economic growth outlook

Expense

- Year-end ministry pressures that materialize
- Consolidation updates, particularly BPS
- Contaminated sites and other liabilities that may need to be taken on as part of AG review
- Other year-end accounting adjustments
- Changes to Interest on Debt (IOD)

2016-17 In-Year Fiscal Performance at a Glance

- Based on the current information available, the **deficit is projected to be as low as \$1.0 billion** – a \$3.3 billion improvement over the 2016 Budget forecast, and \$2.5 billion over the 2015-16 deficit.
- However, given the potential that identified risks may materialize as year-end adjustments and offset this potential improvement, the recommended 2016-17 interim outlook is **\$1.5 billion**.
- A modest improvement relative to Q3 would still allow the government to demonstrate progress on its path to balance and potentially leave fiscal flexibility in both revenue (about \$0.5B) and interest on debt (less than \$0.1B) to help offset year-end changes.
- Key change from Q3 Finances would be the removal of the reserve – all other changes offset each other.



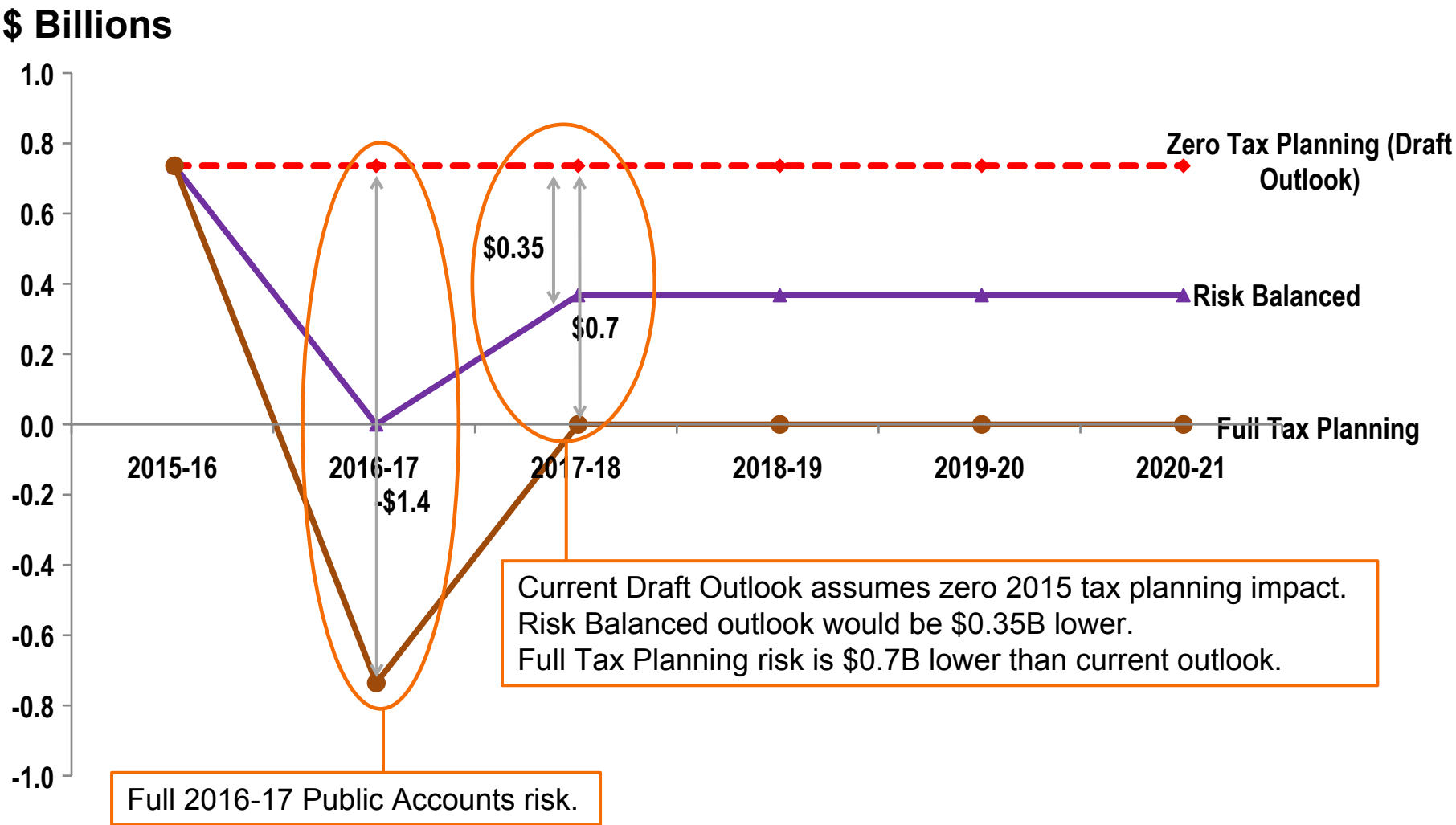
\$ Billions	Budget 2016-17	Change to Report	Interim 2016-17
Revenue	130.6	2.6	133.2
Expense			
Programs	122.1	1.4	123.5
Interest on Debt	11.8	(0.5)	11.3
Total Expense	133.9	0.9	134.8
Surplus/(Deficit) Before Reserve	(3.3)	1.8	(1.5)
Reserve	1.0	(1.0)	–
Surplus/(Deficit)	(4.3)	2.8	(1.5)
Net Debt-to-GDP (Per Cent)	39.6	1.8	37.8

Appendix

2016-17 Public Accounts Revenue Risks

- Main risk is the assumption that extraordinarily high 2015 PIT (\$1.0B above 2016 Budget estimate) will largely carry forward into the forecast for 2016 and beyond.
 - 2015 PIT revenues may have been materially boosted by tax planning through which taxpayers shifted income from future years into 2015 to avoid increases in federal tax rates applied above \$200,000 of taxable income.
 - Current outlook does not include an allowance for tax planning.
 - Federal Finance methodology applied to Ontario results in an estimate of \$0.7B in 2015 revenues being due to tax planning.
 - A prudent allowance of \$0.5B has been included in the interim outlook for 2016-17.
 - Impact of the full amount being attributed to tax planning would be a lower 2015 base, reducing the revenue outlook by a further \$0.9B in 2016-17, and \$0.7B per year onwards.
 - Risk to 2016 PIT will remain until tax return processing information becomes available in the summer of 2017.
- Historically, government business enterprise and Ministry internal revenue estimates are slightly prudent and increase in the range of \$0.1 to \$0.3B in Public Accounts.
- Potential risks related to OPG net income from OPG's rate application, operational, and financial market risks.

PIT Tax Planning Risk



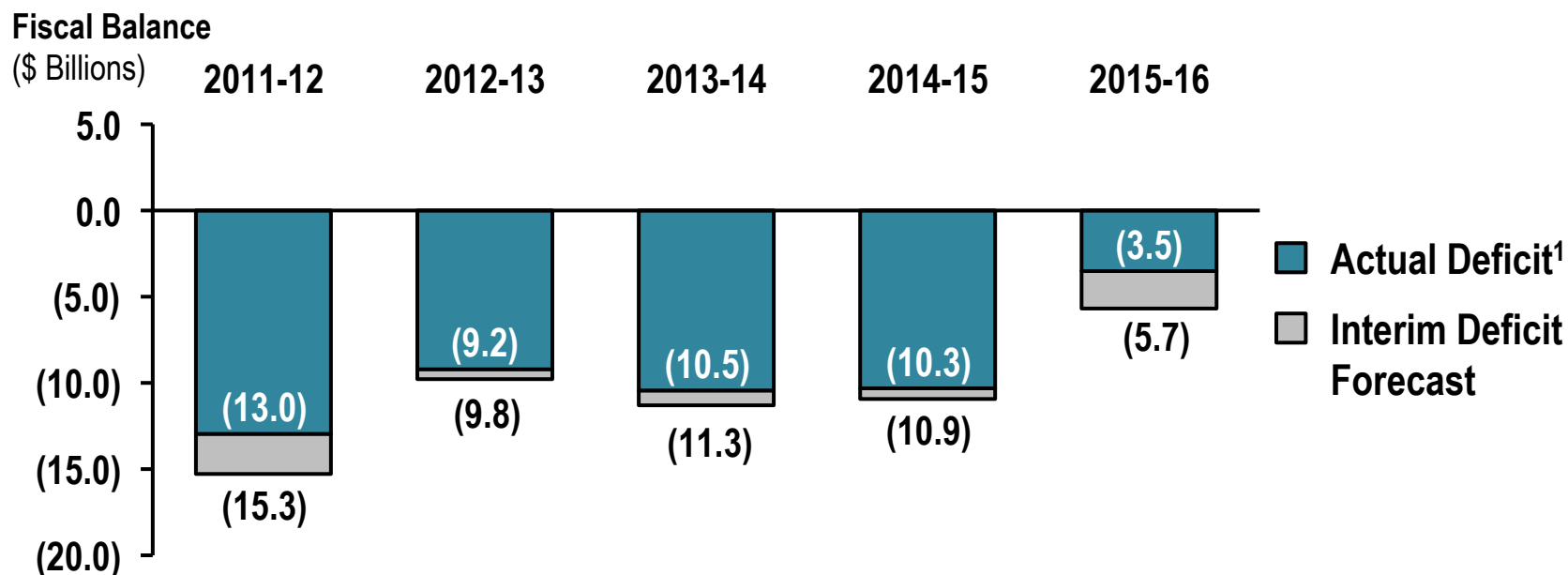
Program Spending Performance

2016-17 Interim Expense Outlook \$ Millions	Budget 2016-17	Q3 Finances	Interim 2016-17	Interim vs. Q3	Interim vs. 2016 Budget	Y-O-Y Growth Actual 2015- 16 to Interim 2016-17	Average Annual Growth 2013- 14 to 2016-17 Interim
Health Sector	51,785	52,138	52,206	68	421	2.2%	2.2%
Education Sector	25,636	25,672	25,741	68	105	3.0%	2.9%
Postsecondary and Training	7,877	8,097	7,807	(289)	(70)	2.0%	0.9%
Children's and Social Services Sector	15,814	15,948	16,168	219	354	4.1%	5.0%
Justice Sector	4,517	4,533	4,631	97	113	1.8%	3.3%
Other Programs Sector	16,511	16,870	16,950	81	440	-1.0%	-1.0%
Total Program Expense	122,139	123,258	123,502	245	1,363	2.1%	2.2%

Revenue Performance

2016-17 Interim Revenue Outlook \$ Millions	Budget 2016-17	Q3 Finances	Interim 2016-17	Interim vs. Q3	Interim vs. 2016 Budget	Y-O-Y Growth Actual 2015- 16 to Interim 2016-17	Average Annual Growth 2013- 14 to 2016-17 Interim
Taxation Revenue	91,819	94,787	95,063	276	3,244	3.5%	5.9%
Federal Transfers	24,644	24,468	24,395	(73)	(249)	6.7%	3.1%
Income from Government Business Enterprises	5,027	5,212	5,297	85	270	7.9%	-0.3%
Other Non-Tax Revenue	9,099	8,646	8,473	(173)	(626)	-3.6%	0.6%
Total Revenue	130,589	133,113	133,228	115	2,639	3.8%	4.8%

Interim Fiscal Performance 2011-12 to 2015-16



¹Represents actual results for 2011-12 to 2015-16

Interim Fiscal Performance (\$ Billions)					
	2011-12	2012-13	2013-14	2014-15	2015-16
Interim Surplus/(Deficit)	(15.3)	(9.8)	(11.3)	(10.9)	(5.7)
Revenue Changes	0.5	(0.9)	0.3	0.0	1.8
Expense Changes	(1.8)	(1.4)	(0.6)	(0.5)	0.0
Interest on Debt Changes	(0.0)	(0.0)	0.0	(0.0)	(0.2)
Reserve Changes	-	-	-	-	(0.2)
Actual Surplus/(Deficit)	(13.0)	(9.2)	(10.5)	(10.3)	(3.5)
Total Changes	2.3	0.6	0.8	0.6	2.2

2016-17 Evolution of Fiscal Performance

\$ Billions	2015-16 Actual	2016 Budget	Change from Budget to FES	2016 FES	Change from FES to Q3	Q3 2016-17
Revenue	128.4	130.6	2.1	132.7	0.4	133.1
Expense						
Program Expense	120.9	122.1	3.1	125.3	(2.0)	123.3
Interest on Debt	11.0	11.8	(0.4)	11.4	-	11.4
Total Expense	131.9	133.9	2.7	136.6	(2.0)	134.6
Reserve	-	1.0	(0.6)	0.4	-	0.4
Surplus/ (Deficit)	(3.5)	(4.3)	0.0	(4.3)	2.4	(1.9)

Note: Numbers may not add due to rounding.