TBS

OFFICE OF THE PROVINCIAL CONTROLLER DIVISION

2016-17 Public Accounts

Cabinet Highlights Deck

August 31, 2017

Confidential – For Internal Discussion Purposes

2016-17 Financial Highlights

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- **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

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- 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

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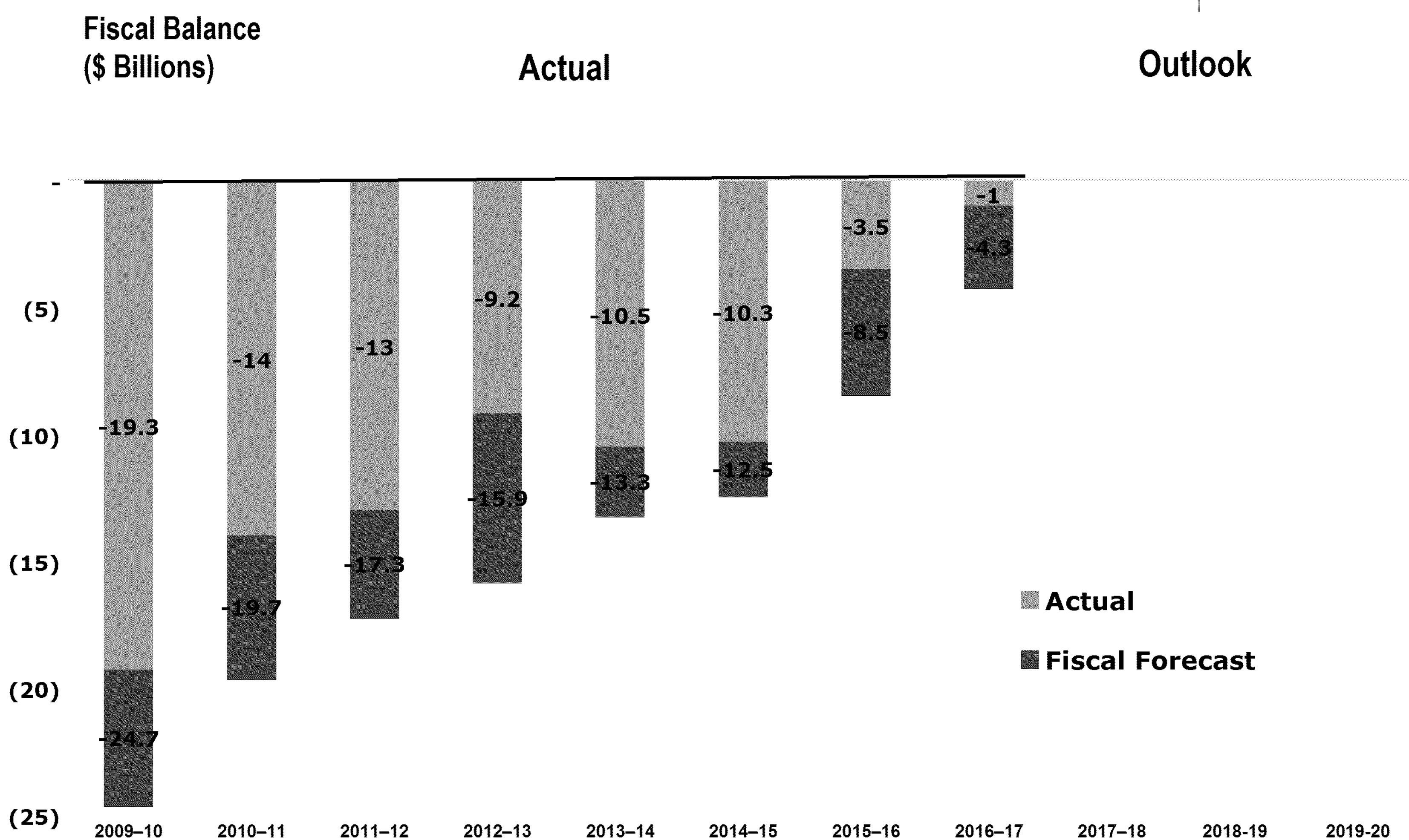

[1] Represents the 2017 Budget outlook for 2017–18 to 2019–20. For 2009–10 to 2016–17, actual results are presented. The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' 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

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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

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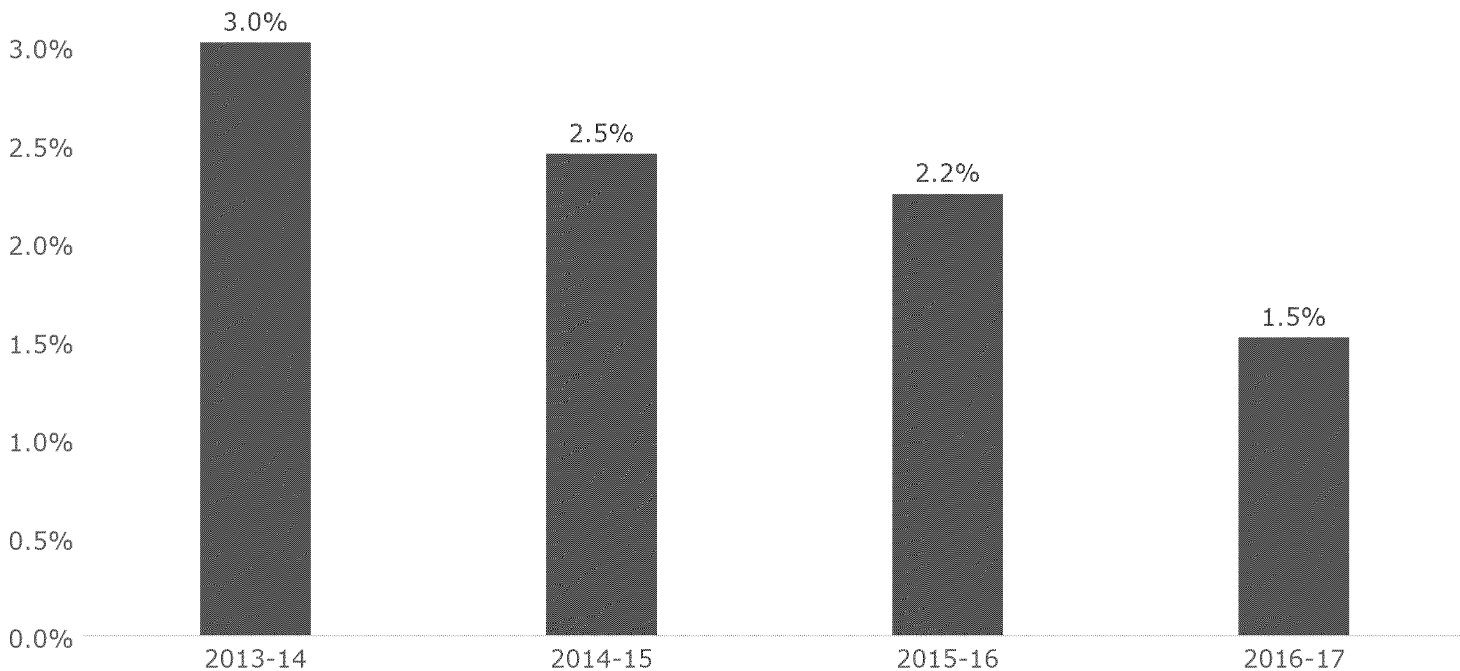

Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Communications

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Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is $1 billion**. 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

- **Medium 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

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Rollout

- Public release currently tracking for **September 7** via joint TBS and MOF **press conference** and **province-wide news release** with backgrounder.
  - OPTION: **Technical briefing for media and opposition** in advance to present 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
  - Trillium Trust drawdowns
- Other:
  - Questioning balanced budget narrative
  - Growing debt burden
  - Relationship with AG and her criticism of the Fair Hydro Plan
- TBS will focus on the issues specific to Public Accounts, and work in tandem with MOF and Energy to ensure peripheral issues, such as Trillium Trust and Fair Hydro Plan, are positioned accordingly.

APPENDIX

Revenues – 2016-17 Interim vs. Actual

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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)

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	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%**