2016-17 Interim Fiscal Outlook

Office of the Budget
MINISTRY of FINANCE

BPC/Ministers/MMMP

Preliminary Draft – All Numbers To Be Confirmed

Draft – March 19, 2017 7:00 PM

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**: an 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 relative to the year-end savings target.
  - **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, implicit/explicit prudence could be built into the interim forecast to guard against risks that could materialize between the 2017 Document and Public Accounts.
    - The 2015-16 interim forecast maintained a reserve of $150 million given that the 2016 Budget was published two months before the end of the fiscal year and the higher level of risk and uncertainty of achieving the deficit target.
    - In previous years, a more cautious revenue or interest on debt forecast has been used to provide implicit prudence against year-end changes.

Interim Update: Key Changes Since Third Quarter Finances

- The Third Quarter Finances published a deficit of $1.9 billion, a $2.4 billion improvement on the 2016 Budget Plan.
- Since the publication of the Third Quarter Finances, additional information has been received and decisions have been made that could be incorporated into the 2017 Document Interim outlook.

Revenue

Potential Interim Update:

Tax and Non-Tax revenue: $0.6 billion increase mainly related to stronger housing market and other non-tax revenues, net of lower OPG net income.

Asset Optimization: $0.1 billion deterioration to reflect projected finalized transaction sale and timing impacts on 2016-17.

H1&OPG (IFRS) Accounting: $0.1 billion decrease related to changing accounting standards for OPG and Hydro One in 2016-17.

Total Expense

Potential Interim Update:

Program Expense: $0.1 billion net increase in program expense related to updated year-end forecasts from ministries and recent approvals. 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 should draw down the reserve completely to foreshadow a year-end outlook.

Range for 2016-17 Interim Outlook

Modest Improvement

A modest improvement relative to Q3 would report an interim deficit target of $1.5 billion and allow the government to demonstrate progress on its path to balance and potentially leave room of up to $0.5 billion to help offset any year-end changes. Key change from Q3 Finances would be the removal of the reserve – all other changes offset each other.

2016 Budget
(4.3) billion

\+ Higher revenue, new investments and a reduced reserve of ***2.4 billion***

= **2016-17 Third Quarter Finances**
(1.9) billion

\+ Revenue: ***leave overall unchanged***

− Additional Program Expense ***0.1 billion***

\+ Interest on Debt Savings ***0.1 billion***

\+ Reduce Reserve ***0.4 billion***

= **Prudent Interim Outlook**
(1.5) billion

Aggressive Approach

An aggressive interim forecast would report an interim deficit of $1.0 billion and would signal significant progress on the government's commitment to balance. Should all upside be taken on, there is a possibility that year-end actuals may deteriorate compared to interim projections.

2016 Budget
(4.3) billion

\+ Higher revenue, new investments and a reduced reserve of ***2.4 billion***

= **2016-17 Third Quarter Finances**
(1.9) billion

\+ Higher Revenue ***0.5 billion***

− Additional Program Expense ***0.1 billion***

\+ Interest on Debt Savings ***0.2 billion***

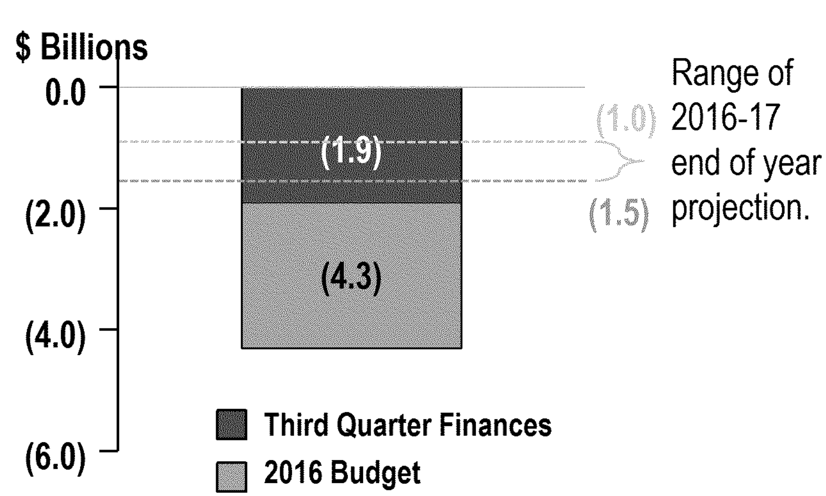
\+ Reduce Reserve ***0.4 billion***

= **Aggressive Interim Outlook**
(1.0) billion

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 for year-end adjustments that could offset this potential improvement, the 2016-17 interim outlook to be reported in the Document **could be set between $1.0 billion and $1.5 billion**.
  - A significant portion of the projected overachievement in 2016–17 since the Third Quarter Finances is due to **higher expected revenue, lower interest on debt, and the reserve.**
  - The forecast could incorporate **implicit prudence through the revenue and interest on debt forecast.**
  - Alternatively, while it would be inconsistent with past practice, **a reserve of $150 million could also be maintained – which would drive the deficit up to $1.7 billion.**
- Multi-year considerations may also be taken into account when determining the interim outlook -- including aligning 2016-17 revenue and interest on debt forecasts with the medium-term plan.

Range for Interim Fiscal Outlook



$ Billions	Budget 2016-17	Change to Report	Interim 2016-17
Revenue	130.6	***2.5 – 3.0***	***133.2 – 133.7***
Expense			
Programs	122.1	*1.2*	*123.4*
Interest on Debt	11.8	*(0.4) - (0.6)*	*11.2 – 11.4*
Total Expense	**133.9**	***0.6 – 0.8***	***134.6 – 134.8***
Surplus/(Deficit) Before Reserve	(3.3)	***1.8 – 2.3***	***1.0 – 1.5***
Reserve	1.0	*1.0*	--
Surplus/(Deficit)	**(4.3)**	***2.8 – 3.3***	***1.0 – 1.5***
Net Debt-to-GDP (Per Cent)	**39.6**	***1.7***	***37.9***

Program Spending Performance

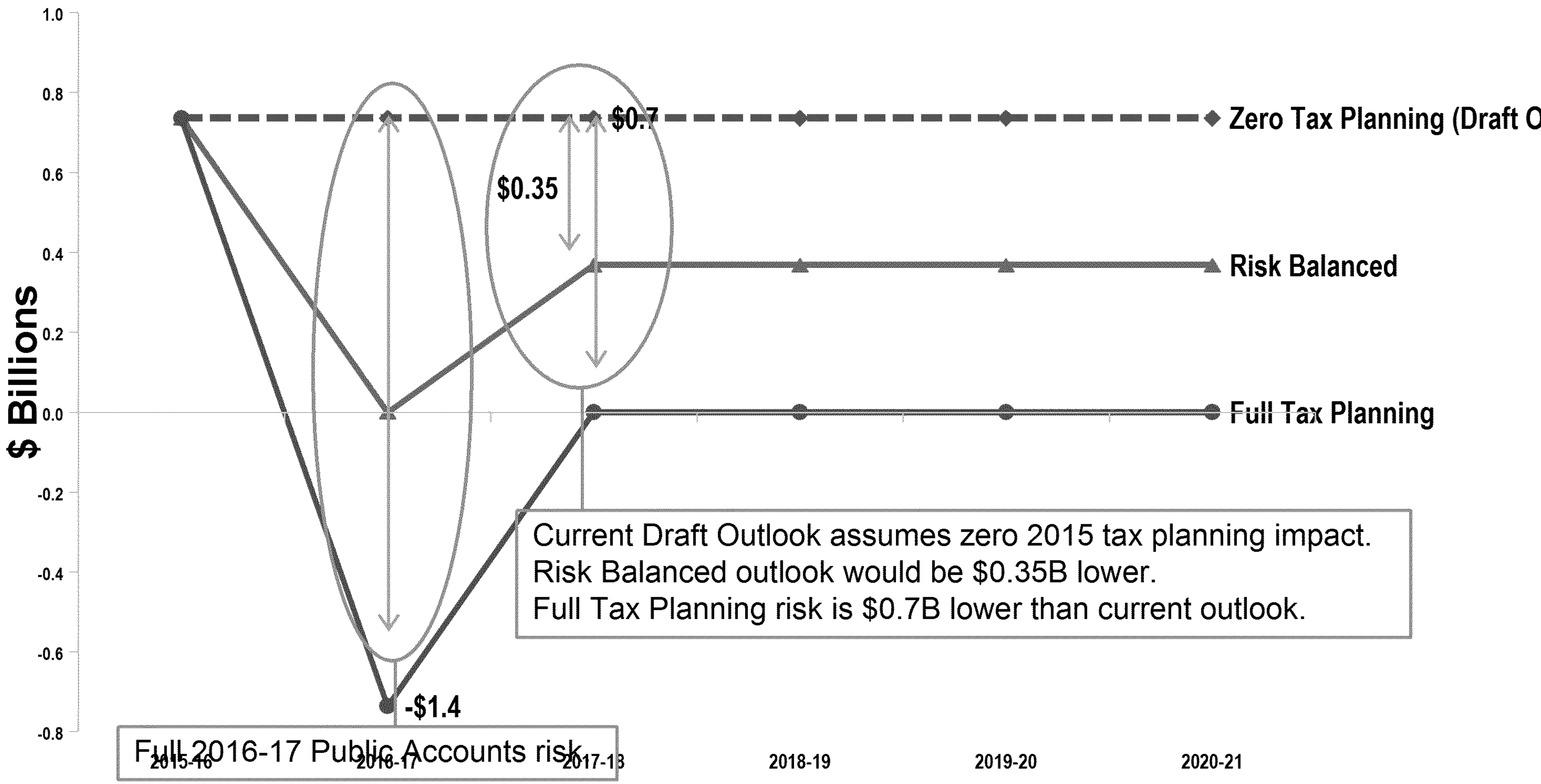
2016-17 Interim Expense Outlook $Millions Ministry/Office/Entity - Structure per 2016 Budget	2016 Budget	Q3 Ontario Finances	Interim	Interim vs. Q3 Ont. Finances	Interim vs. 2016 Budget
Health Sector	51,785	52,138	52,261	***124***	***476***
Education Sector	25,636	25,672	25,741	***69***	***105***
Postsecondary & Training	7,877	8,097	7,802	*(294)*	*(75)*
Children's & Social Servces Sector	15,814	15,948	16,102	***154***	***289***
Justice Sector	4,517	4,533	4,631	***97***	***113***
Other Programs Sector	16,511	16,870	16,820	*(50)*	***309***
TOTAL PROGRAM EXPENSE	**122,139**	**123,258**	**123,357**	***99***	***1,218***

Risks and Information To Come for Public Accounts

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

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

PIT Tax Planning Risk



Key Decisions and Next Steps

Key Decisions

- Identify an interim fiscal outlook that shows an improvement compared to the Third Quarter Finances.

Next Steps

- A decision is required on the 2016-17 interim outlook prior to numbers lock. (TBD - week of March 27th)

Appendix

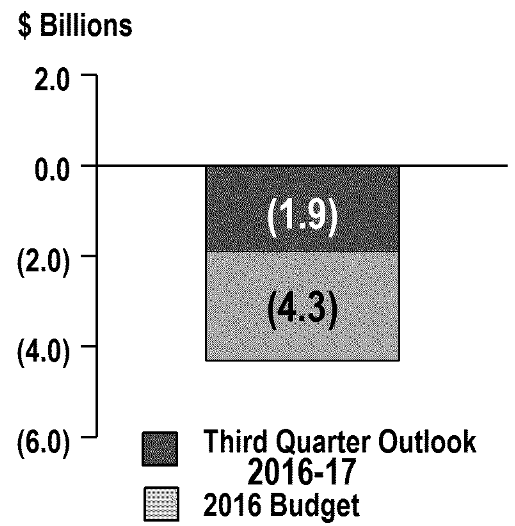
Recap of 2016-17 Third Quarter Outlook

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

Q3 Finances reported changes relative to 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

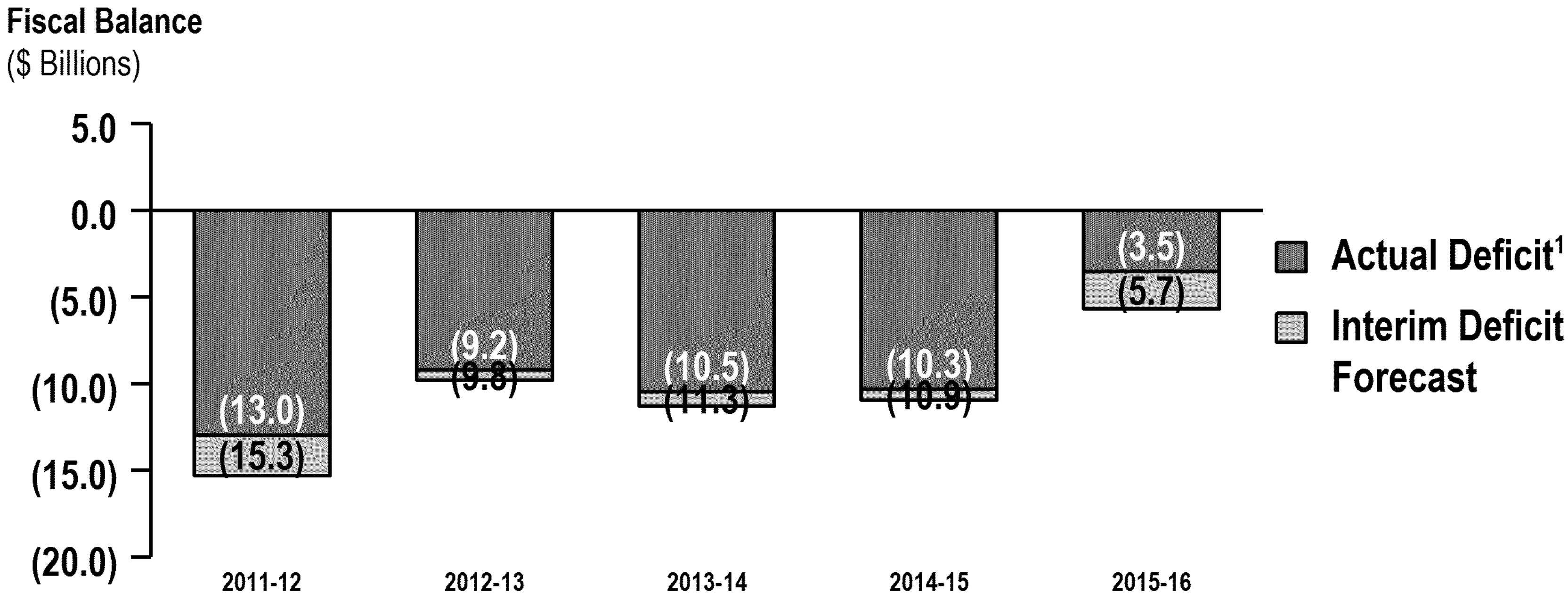


$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	**130.6**	***2.5***	**133.1**
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	**133.9**	***0.7***	**134.6**
Surplus/(Deficit) Before Reserve	**(3.3)**	***1.8***	**(1.5)**
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)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

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.
  - Impact of the higher amount being attributed to tax planning would be a lower 2015 base, reducing the revenue outlook by $0.7B from 2016 onwards, and a potential one-time reduction in 2016 PIT of a further $0.7B.
  - Total risk of -$1.4B 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.

Interim Fiscal Performance 2011-12 to 2015-16



[1]Represents 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.