Office *of the* Budget
MINISTRY *of* FINANCE

2016-17 Third Quarter Finances

Draft – January 18, 2017 2:00PM

Issue

Potential approach to the release of the 2016-17 Third Quarter Finances, which is required to be released by February 15th.

Context

- The Third Quarter Finances provides an opportunity for a public update on the Province's 2016-17 fiscal performance between the Fall Statement and the upcoming Budget.
    - FTAA requires the Third Quarter Finances to include updated information about the major components of Ontario's revenues and expenses for the **current fiscal year only** (no update required for 2017-18 and beyond).
- Due to its close proximity to the delivery of the annual Budget, a third quarter update has only been issued **once in the past eight fiscal years** (in 2012-13). It was released in all years between 2003-04 and 2007-08.
    - In cases where the Third Quarter Finances is not released by the deadline, **a letter explaining why the required information was not released is written to the Clerk** of the Legislature in order to fulfill FTAA requirements.
    - The **Auditor General's 2016 Annual Report** included a recommendation that "the Third Quarter Finances report [be] prepared and publicly released on a timely basis" and that in the case of a delay "the letter [to the Clerk] includes the reasons for the delay" and the "delayed information is tabled as soon as it is available".
- Early information on 2016-17 suggests that **beating the $4.3 billion deficit is within reach**. In fact, pending a decision on the treatment of the Pension Adjustment, the government could significantly overachieve on the deficit.
    - As a result of the importance of the treatment of the Pension Adjustment to 2016-17's fiscal performance, it will be critical to orchestrate the timing and content of Q3 Finances with the release of the Pension Panel's Report and recommendations.
    - The Pension Panel's recommendations are expected to be released in late January or early February.
- If the 2016-17 Third Quarter Finances is to be published, key decisions include:
    - Considering how to position the update in relation to both the **Pension Panel's recommendations** and pending public report, as well as **other pre-conditioning opportunities** related to the 2017 Document.
    - Determining the **current year's fiscal outlook and supporting revenue and expense details** to be published, as well as the supporting **fiscal narrative and**

messaging.

- Finalizing a **release date** and determining if a letter to the Clerk is required.

Potential Options

Given that production of the Q3 Finances would take approximately two weeks (under compressed delivery timeline), and given the potential timing of the Pension Panel report, it is not likely possible to release the Q3 Finances significantly in advance of the Panel's report.

- In addition, even if the Q3 Finances were released in advance of the Panel's report, the government could be critiqued for providing a fiscal update that has a short "shelf life" and is out of step with important current information that it knew it would be in receipt of pre-Document.

Timing Option 1: Delay Release until Several Weeks after the Pension Panel Report

- In order to incorporate the Pension Panel's recommendations, the Third Quarter Finances could be delayed until a few weeks after the report is released (e.g., end of February).
- Under this approach, the government would issue a letter to the Clerk indicating that the Q3 Finances was being delayed in light of the Panel's recommendations, and that it would be released before, for example, the end of February.
- If the government delays the release and reverses the Pension Adjustment in the fiscal plan, the Third Quarter Finances would likely show a significant improvement compared to the current $4.3 billion deficit target.
    - Observers may conclude that this improvement continues going forward, and anticipate a substantial surplus for 2017-18 and future years.
    - The Third Quarter Finances would need to include narrative to mitigate this expectation and ensure sufficient flexibility to accommodate changes that could materialize between its release and the release of the 2017 Document.

Timing Option 2: Defer Release to 2017 Document

- The government may wish to delay release of the Third Quarter Finances and incorporate a more comprehensive update into the 2017 Document.
- Delaying the release would provide the most flexibility in terms of fiscal reporting, particularly in light of the Pension Panel's recommendations and its impact on the fiscal performance for 2016-17 and beyond.
    - However, it may also result in criticism that the government is not providing a fiscal update to reflect new information and the Panel's recommendations.

- This will become more important should the Budget timing be later than previous years.

This option would require writing a letter to the Clerk, notifying that, in light of the Panel's recommendations, and in the interest of providing a more comprehensive update on the Province's fiscal outlook, Q3 Finances would be included in the 2017 Budget.

Appendix

Historical Information on Surplus/(Deficits)

Note: This table is read vertically and shows all the published surplus/(deficits) for each fiscal year since 2003–04.

($ Billions)	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Budget	-	(2.2)	(2.8)	(2.4)	(0.4)	-	(14.1)	(19.7)	(16.3)	(14.8)	(11.7)	(12.5)	(8.5)
Q1 Finances	-	(2.2)	(2.8)	(1.9)	-	-	(18.5)	(19.7)	(16.0)	(14.8)	(11.7)	N/A	(8.5)
Fall Statement	(5.6)	(2.2)	(2.4)	(1.9)	-	(0.5)	(24.7)	(18.7)	(16.0)	(14.4)	(11.7)	(12.5)	(7.5)
Q3 Finances	(5.6)	(2.2)	(2.4)	(1.9)	-	N/A	N/A	N/A	N/A	(11.9)	N/A	N/A	N/A
Interim (Subsequent Budget)	(6.2)	(3.0)	(1.4)	0.3	0.6	(3.9)	(21.3)	(16.7)	(15.0)	(9.8)	(11.3)	(10.9)	(5.7)
Public Accounts	(5.5)	(1.6)	0.3	2.3	0.6	(6.4)	(19.3)	(14.0)	(13.0)	(9.2)	(10.5)	(10.3)	(5.0)

Historical Timing of Third Quarter Updates

($ Billions)	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-
FES Release Date	Dec 17	Nov 4	Nov 1	Oct 26	Dec 13	Oct 22	Oct 22	Nov 18	Nov 23	Oct 15	Nov 7	Nov 17	Nov 26	Nov
Third Quarter Finances Release Date	**Jan 26**	**Feb 14**	**Jan 20**	**Feb 15**	**Jan 30**	**N/A**	**N/A**	**N/A**	**N/A**	**Jan 22**	**N/A**	**N/A**	**N/A**	**TE**
Subsequent Budget Release Date	May 18	Mar 11	Mar 23	Mar 22	Mar 25	Mar 26	Mar 25	Mar 29	Apr 25	May 2	Jul 14	Apr 17	Feb 25	*[la Ap*
Days Between FES and Budget	154	128	143	148	104	156	155	132	155	200	250	152	90	*~1*
Days Between Third Quarter Finances and Budget	113	25	62	35	55	N/A	N/A	N/A	N/A	100	N/A	N/A	N/A	*TE*

Appendix: Historical Experience with Q3 Finances

scal Outlook Millions)	**99-00**	**00-01**	**01-02**	**02-03**	**03-04**	**04-05**	**05-06**	**06-07**	**07-08**	**08-09**	**09-10**
ll Statements	1,026	1,366	140	0	(5,621)	(2,168)	(2,369)	(1,949)	0	(500)	(24,716)
3 Release Date	Feb 1	Feb 13	Feb 27	N/A	Jan 26	Feb 14	Jan 20	Feb 15	Jan 30	N/A	N/A
3 Finances	1,001	1,411	140	N/A	(5,621)	(2,168)	(2,369)	(1,949)	0	N/A	N/A
erim	654	3,192	58	524	(6,222)	(2,993)	(1,369)	310	600	(3,890)	(21,330)
blic Accounts	668	1,902	375	117	(5,483)	(1,555)	298	2,269	600	(6,409)	(19,262)

Ms. Deborah Deller
Clerk of the Legislative Assembly
Legislative Building Assembly, Room 104
111 Wellesley Street West
Toronto, Ontario
M7A 1A2

Dear Madam Clerk:

Section 7 of the *Fiscal Transparency and Accountability Act, 2004* requires that updated information about Ontario's revenues and expenses for the current fiscal year be released on or before February 15, 2017.

It is expected that the Pension Asset Expert Advisory Panel will be releasing recommendations on the application of Public Sector Accounting Standards to Ontario's net pension assets early this year. Providing Ontario's third quarter update after the release of the Expert Advisory Panel's report will ensure the most complete and accurate portrayal of Ontario's finances.

Accordingly, per section 11 of the *Fiscal Transparency and Accountability Act, 2004*, I am notifying you that the third quarter update for the current fiscal year will be [**Option 1:** released in late February / **Option 2:** included in the 2017 Budget].

Sincerely,

Charles Sousa
Minister of Finance