Ontario

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
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Contents

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook

The government is projecting a deficit of $1.9 billion in 2016–17, an improvement of $2.4 billion compared to the *2016 Budget*. This marks the eighth year in a row that the government is projected to beat its deficit target.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues.Together with the strengthening of the Ontario economy, this has allowed the government to beat its fiscal targets while also making critical investments in the public services that Ontarians rely on, such as healthcare and corrections reform.

Ontario's economic growth outlook remains largely consistent with the forecast in the *2016 Ontario Economic Outlook and Fiscal Review*. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. However, there are risks to the economic growth outlook. Notably, interest rates have started to rise, which may dampen overall economic activity.

The government is projecting a net debt-to-GDP ratio of 38.3 per cent for 2016-17, an improvement compared to the *2016 Budget* projection of 39.6 per cent.

Accounting Treatment for Jointly-Sponsored Pension Plans

In the *Public Accounts of Ontario 2015–2016*, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment").

This cautious approach to forecasting the Pension Adjustment was also adopted in the *2016 Ontario Economic Outlook and Fiscal Review* , published in the Fall of 2016. The government established a Pension Asset Expert Advisory Panel (the Panel) to assess the appropriate interpretation of public-sector accounting standards as related to Ontario's pension plans.

The Panel recently released its report, including advice to recognize jointly-sponsored net pension assets on the Province's financial statements. The government is following the Panel's advice by reversing the Pension Adjustment for the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which aligns with the treatment originally included in the 2016 Budget plan.

The reversal will result in a significant improvement this fiscal year and could support additional investments in 2017–18 and beyond.

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17 Budget Plan	2016–17 Current Outlook	2016–17 In-Year Change
Revenue	**130,589**	**133,188**	**2,599**
Expense			
Programs	122,139	123,275	1,135
Interest on Debt	11,756	11,375	(381)
Total Expense	**133,895**	**134,650**	**754**
Surplus/(Deficit) Before Reserve	**(3,306)**	**(1,462)**	**1,845**
Reserve	1,000	400	(600)
Surplus/(Deficit)	**(4,306)**	**(1,862)**	**2,445**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $133.2 billion, an improvement of $2.6 billion compared to the *2016 Budget*. This increase is largely due to higher-than-expected revenues arising from processing of 2015 income tax returns and the housing market. This is partially offset by lower Government of Canada Transfers for home care and infrastructure than anticipated in the *2016 Budget*. In addition, proceeds from Ontario's first Cap and Trade auction, which is scheduled for March 2017, were previously being accounted for in 2016–17, and are now being reported in the 2017–18 fiscal year based on the expected date of certification and settlement of proceeds.

The outlook for Provincial program expense is $123.3 billion, an increase of $1.1 billion compared to the 2016 Budget projection — reflecting strategic investments such as healthcare and corrections reform.

Interest on debt expense for 2016–17 is forecast to be $11.4 billion, $0.4 billion lower than forecast in the *2016 Budget* due to a combination of lower-than-forecast borrowing requirements and interest rates.

The 2016–17 outlook maintains a $0.4 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense that could arise before year-end. This includes changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes

Revenue

The 2016–17 revenue outlook, at $133.2 billion is $2.6 billion higher than the 2016 Budget forecast. This is due to the following developments:

- **Corporations Tax revenues** are $1,041 million above the 2016 Budget projection based on higher revenues indicated by 2015 tax returns processed since the *2016 Budget*. Tax re-assessments for years prior to 2015 also boost the outlook in 2016–17.
- **Sales Tax revenues** are $803 million higher than projected in the 2016 Budget estimate, largely due to higher 2015 Harmonized Sales Tax entitlement estimates. This estimate increased largely due to the strong 2015 Ontario housing market which increased Ontario's share of the HST revenue pool.
- **Personal Income Tax** and **Ontario Health Premium** revenues combined are $728 million higher largely due to stronger 2015 revenues indicated through processing of tax returns.
- **Land Transfer Tax** is $514 million above the 2016 Budget projection reflecting the ongoing gains in Ontario housing resales and prices.
- **All Other Taxes** are down $118 million mainly reflecting lower collections.
- **Government of Canada Transfers** are $176 million lower, mainly due to lower transfers for home care and infrastructure than anticipated in the *2016 Budget*. Funding announced since the *2016 Budget* for affordable housing, post-secondary education, clean water and wastewater projects and support for prevention initiatives in First Nations is included in the outlook.
- **Income from Government Business Enterprises** is $185 million higher, reflecting stronger 2016–17 year-to-date performances of the Ontario Lottery and Gaming Corporation and Liquor Control Board of Ontario.
- **Other Non-Tax Revenue** is $378 million lower reflecting a shift in reporting of $478 million in projected Cap and Trade auction proceeds for the March 2017 auction from 2016-17 to 2017-18, based on the expected date of certification and settlement of proceeds. This is partially offset by higher projected revenue related to recoveries of prior-year expenditures based on 2015-16 results.

There are still risks to the revenue outlook that could result in changes by the time of the 2017 Budget. These include potential revisions to the economic outlook, tax receipts from provincially administered taxes and updates from government Ministries, business enterprises and consolidated business organizations.

Expense

The 2016–17 total expense outlook is $134.6 billion, $0.8 billion higher than the 2016 Budget forecast. Since the *2016 Ontario Economic Outlook and Fiscal Review*, the following program expense changes have occurred and have been accommodated within the fiscal plan.

Key changes to program expense with offsets from the contingency funds include:

- **Corrections Reform**: an expense increase of $10.4 million for immediate actions to modernize the correctional services system, including: improving conditions of confinement; providing appropriate alternatives to segregation; and improving mental health capacity.
- **First Nations Policing Wage Parity**: an expense increase of $6.5 million to support wage parity for the Nishnawbe-Aski Police Service for First Nations Constables employed under the Ontario First Nations Policing Agreement.
- **International Disaster Relief Program**: a one-time contribution to the Canadian Red Cross of $0.3 million through the International Disaster Relief Program to support disaster relief efforts in Haiti, following Hurricane Matthew.

Other key changes to program expense include:

- **Ontario Drug Benefit Program**: an investment of $106 million to amend the Ontario Drug Benefit program to increase the income threshold for low income seniors to better align with the Guaranteed Annual Income System threshold.
- **Stem Cell Transplants and Other Health Priorities**: an investment of $95.4 million to support additional capacity within Cancer Care Ontario, Sunnybrook Health Sciences Center, and OHIP for acute leukemia treatment and stem cell transplants, which require specialized facilities and staffing.
- **Prevention Initiatives in First Nation Communities:** a flow through of federal funding of $5.8 million to support service delivery providers to design prevention programming to meet a community's particular needs in 132 First Nations communities.

Interest on debt expense for 2016–17is forecast to be $11.4 billion, $0.4 billion lower than forecast in the *2016 Budget* due to a combination of lower-than-forecast borrowing requirements and interest rates.

Fiscal Prudence

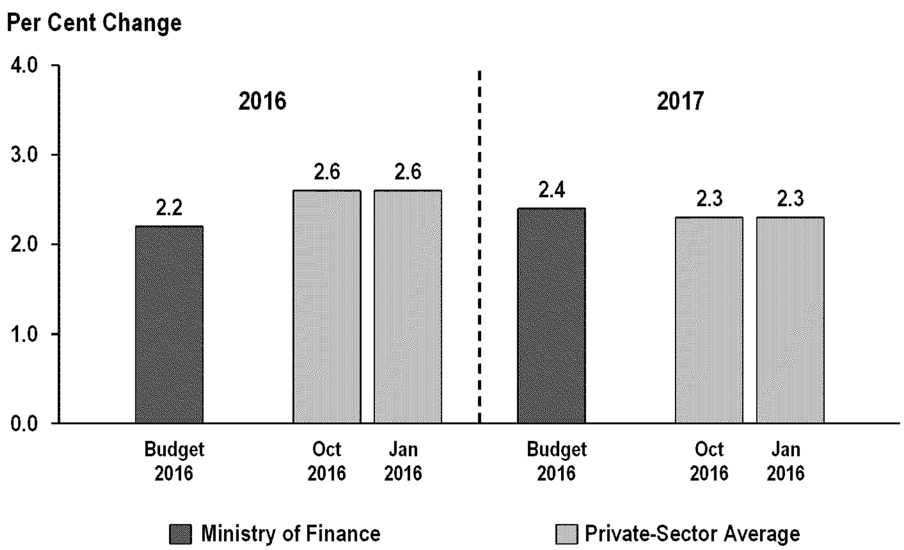
The 2016–17 outlook maintains a $0.4 billion reserve, $0.6 billion lower than in the *2016 Budget.* Maintaining the reserve at this level protects the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense that may occur before year-end, including changes in Ontario's economic performance or the impact of natural disasters.

The current outlook also maintains contingency funds of $0.6 billion to help mitigate expense risks – particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized – that may otherwise adversely affect Ontario's fiscal performance.

Section C: Ontario's Economic Outlook

Ontario's economic growth outlook remains consistent with the *2016 Ontario Economic Outlook and Fiscal Review* forecast. As of January 25, 2017, private-sector forecasters, on average, project Ontario real GDP to increase by 2.6 per cent in 2016 and 2.3 per cent in 2017, both unchanged from the time of the *2016 Ontario Economic Outlook and Fiscal Review*.

Ontario Real GDP Growth



Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March and July).

There are risks to the economic outlook. Notably, interest rates have started to rise, which may dampen overall economic activity.

Section D: Economic Performance

Ontario's economy continues to grow in an uncertain global environment. Real GDP advanced by 0.7 per cent in the third quarter of 2016, led by growth in exports, household spending and housing investment. Over the first three quarters of 2016, Ontario's real GDP growth outpaced that of all G7 countries.

The strength in Ontario's economy has supported steady employment gains. A total of 76,400 net new jobs were added in 2016, accelerating from the growth recorded in the previous two years. The unemployment rate has also shown a marked improvement. As of December 2016, the unemployment rate was 6.4 per cent, below the national average for the 20th consecutive month.

Other key economic indicators also advanced strongly in 2016. For example, in the business-sector, manufacturing sales and wholesale trade grew faster than the average of the other provinces. On the consumer side, there was also strong gains in retail sales and housing market activity in 2016.

Ontario's Economic Performance

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Quarterly				Annual	
	2016Q1	**2016Q2**	**2016Q3**	**2016Q4**	**2015**	**2016 / Year-to-date**
Gross Domestic Product						
Real GDP	0.9	0.2	0.7	N/A	2.5	N/A
Nominal GDP	1.3	0.4	1.0	N/A	4.9	N/A
Labour Market						
Employment (Change in 000s)	36.1	15.2	-19.3	55.3	45.3	76.4
Labour Force (Change in 000s)	36.8	7.5	-27.5	42.2	7.5	63.4
Unemployment Rate (%)	6.8	6.7	6.6	6.4	6.8	6.5
Other Key Economic Indicators						
Retail Sales[1]	1.4	-0.2	0.9	N/A	4.2	4.8
Housing Starts	7.3	-3.5	-1.3	1.3	18.6	6.8
MLS Home Resales	2.8	4.0	1.0	1.6	9.5	9.4
Manufacturing Sales[1]	2.3	-2.3	0.9	N/A	1.7	4.3
Wholesale Trade[1]	1.9	0.3	1.5	N/A	6.5	6.4
Consumer Price Index[2]	1.7	1.9	1.6	2.0	1.2	1.8

1 Data available until November 2016.
2 Per cent change from a year earlier, data not seasonally adjusted.
N/A = Data not available.
Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	32,842	675
Sales Tax[1]	23,976	24,779	803
Corporations Tax	12,050	13,091	1,041
Education Property Tax[2]	5,834	5,914	80
Employer Health Tax	6,007	5,896	(111)
Ontario Health Premium	3,604	3,657	53
Gasoline Tax	2,522	2,554	32
Land Transfer Tax	2,051	2,565	514
Tobacco Tax	1,221	1,168	(53)
Fuel Tax	790	721	(69)
Beer and Wine Tax	611	600	(11)
Electricity Payments-In-Lieu of Taxes	515	515	–
Other Taxes	471	485	14
	91,819	**94,787**	**2,968**
Government of Canada			
Canada Health Transfer	13,858	13,893	35
Canada Social Transfer	5,128	5,141	13
Equalization	2,304	2,304	–
Infrastructure Programs	1,017	742	(275)
Labour Market Programs	989	1,187	198
Social Housing	434	434	–
Other Federal Payments	914	767	(147)
	24,644	**24,468**	**(176)**
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	2,118	165
Liquor Control Board of Ontario	2,025	2,045	20
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	1,049	–
	5,027	**5,212**	**185**
Other Non-Tax Revenue			
Reimbursements	983	983	–
Vehicle and Driver Registration Fees	1,751	1,751	–
Electricity Debt Retirement Charge	625	625	–
Power Supply Contract Recoveries	643	643	–
Sales and Rentals	2,421	2,409	(12)
Cap-and-Trade Proceeds	478	–	(478)
Other Fees and Licences	987	987	–
Net Reduction of Power Purchase Contract Liability	129	129	–
Royalties	287	287	–
Miscellaneous Other Non-Tax Revenue	795	907	112
	9,099	**8,721**	**(378)**
Total Revenue	**130,589**	**133,188**	**2,599**

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	79.9	3.0
Agriculture, Food and Rural Affairs[1]	915.9	915.9	–
Attorney General	1,867.8	1,867.8	–
Board of Internal Economy	219.9	219.9	–
Children and Youth Services	4,346.1	4,454.6	108.5
Citizenship, Immigration and International Trade	220.8	176.8	(44.0)
Community and Social Services	11,467.5	11,470.8	3.3
Community Safety and Correctional Services	2,649.5	2,665.4	15.9
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	1,176.4	(0.7)
Education[1]	25,635.8	25,672.3	36.6
Energy[1]	322.1	322.0	(0.0)
Environment and Climate Change	531.4	531.4	–
Executive Offices	44.0	44.9	0.9
Finance[1]	963.1	968.6	5.5
Francophone Affairs, Office of	5.7	5.7	–
Government and Consumer Services	607.6	605.6	(2.0)
Health and Long-Term Care	51,785.2	52,132.8	347.6
Labour	309.5	309.3	(0.2)
Municipal Affairs and Housing[1]	900.0	900.0	–
Natural Resources and Forestry[1]	750.6	750.1	(0.6)
Northern Development and Mines	790.7	790.7	–
Tourism, Culture and Sport[1]	1,250.8	1,290.1	39.3
Training, Colleges and Universities	7,876.8	8,096.6	219.8
Transportation	3,850.9	3,849.6	(1.4)
Treasury Board Secretariat[1]	316.9	347.7	30.8
Cap and Trade Envelope	–	17.0	17.0
Interest on Debt[2]	11,756.0	11,375.0	(381.0)
Other Expense[1]	4,056.8	4,412.6	355.7
Year-End Savings[3]	(800.0)	(800.0)	–
Total Expense	**133,895.4**	**134,649.5**	**754.1**

[1] Details on other ministry expense can be found in the Details of Other Expense table.
[2] Interest on debt is net of interest capitalized during construction of tangible capital assets of [$183] million in 2016–17.
[3] As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.
The impact of ministry restructuring since the *2016 Budget* will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
Green Investment Fund Initiatives	–	5.0	5.0
One-Time Investments including Settlements	–	0.4	0.4
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	116.4	116.4
Time-Limited Investments	–	3.1	3.1
Community and Social Services			
Time-Limited Investments in Affordable and Supportive Housing	–	23.0	23.0
Economic Development, Employment and Infrastructure / Research and Innovation			
Green Investment Fund Initiatives	–	99.0	99.0
Federal-Provincial Infrastructure Programs	618.7	316.3	(302.4)
Education			
Teachers' Pension Plan	(452.0)	(452.0)	–
Energy			
Green Investment Fund Initiatives	–	108.0	108.0
Ontario Clean Energy Benefit	–	–	–
Strategic Asset Management and Transformation Related to Hydro One	70.9	70.9	0.0
8% Provincial Rebate for Electricity Consumers (Time-Limited Assistance)	–	300.0	300.0
Environment and Climate Change			
Green Investment Fund Initiatives	–	1.0	1.0
Executive Offices			
Time-Limited Assistance	–	1.0	1.0
Finance			
Ontario Municipal Partnership Fund	505.0	505.0	–
Power Supply Contract Costs	643.1	643.1	–
Health and Long-Term Care			
Time-Limited Investments in Affordable and Supportive Housing	–	4.7	4.7
Municipal Affairs and Housing			
Green Investment Fund Initiatives	–	92.0	92.0
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	543.6	383.3
Time-Limited Investments	–	0.9	0.9
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	134.8	65.0
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	88.6	–
Transportation			
Green Investment Fund Initiatives	–	20.0	20.0
Treasury Board Secretariat			
Capital Contingency Fund	100.0	100.0	–
Operating Contingency Fund	1,100.0	535.2	(564.8)
Employee and Pensioner Benefits	1,152.5	1,152.5	–
Total Other Expense	**4,056.8**	**4,412.6**	**355.7**

1

Notes: Numbers may not add due to rounding. The impact of ministry restructuring since the *2016 Budget* will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions) Sector	2016–17 Current Outlook Investment in Capital Assets[1]	Transfers and Other Infrastructure Expenditures[2]	Total Infrastructure Expenditures[3]
Transportation			
Transit	4,701	660	5,361
Provincial Highways	2,108	43	2,150
Other Transportation, Property and Planning	603	186	788
Health			
Hospitals	2,621	263	2,884
Other Health	60	248	308
Education	2,390	171	2,561
Postsecondary			
Colleges and Other	704	13	716
Universities	–	375	375
Social	12	801	814
Justice	58	197	255
Other Sectors[4]	436	748	1,183
Total	**13,693**	**3,703**	**17,396**

1 Includes $183 million in interest capitalized during construction.
2 Includes transfers to municipalities, universities and non-consolidated agencies.
3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.
4 Includes government administration, natural resources, culture and tourism sectors.
Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**133,188**
Expense					
Programs	112,248	115,792	118,225	120,925	123,275
Interest on Debt[1]	10,341	10,572	10,635	10,967	11,375
Total Expense	**122,589**	**126,364**	**128,860**	**131,892**	**134,650**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(3,515)**	**(1,462)**
Reserve	–	–	–	–	400
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(3,515)**	**(1,862)**
Net Debt	252,088	267,190	284,576	[X.X]	[X.X]
Accumulated Deficit	167,132	176,634	187,511	[X.X]	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	531,545
Population – July (000s)	13,410	13,551	13,678	13,797	13,983
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	38,014
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	[X.X]	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	[X.X]	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	[X.X]	[X.X]

1 Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $165 million in 2015–16, and [$183] million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	1.9	(2.4)
Investment in Capital Assets	11.2	[X.X]	[X.X]
Non-Cash Adjustments	(5.8)	[X.X]	[X.X]
Other Net Loans/Investments	(0.9)	[X.X]	[X.X]
Debt Maturities	21.5	[X.X]	[X.X]
Debt Redemptions	0.1	[X.X]	[X.X]
Total Funding Requirement	**30.3**	**[X.X]**	**[X.X]**
Canada Pension Plan Borrowing	(0.1)	[X.X]	[X.X]
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	[X.X]
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	[X.X]
Preborrowing from 2015–16	–	[X.X]	[X.X]
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2017)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2017 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2017, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 Third Quarter Finances, please call:

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth

The bar chart shows forecasts for Ontario real GDP growth for 2016 and 2017. In the *2016 Budget*, the Ontario Ministry of Finance planning assumption for real GDP growth was 2.2 per cent in 2016 and 2.4 per cent in 2017. The current private-sector forecast average for Ontario real GDP growth is 2.6 per cent in 2016 and 2.3 per cent in 2017.