SECTION EXTRACT	EXTRACT (may not be final signoff version)	Comments/considerations
2A Path to Balanced Budget	In October, the *Public Accounts of Ontario 2015–2016* reported that the 2015–16 deficit was $5.0 billion, an improvement of $3.5 billion from the $8.5 billion projection in the *2015 Budget*. The reported deficit of $5.0 billion includes an additional $1.5 billion in unbudgeted/unexpected(?) expense resulting from the government regulating the Auditor General's accounting treatment for pension assets of jointly sponsored pension plans for 2015–16 (see Chapter II, Section B: *Transforming Government and Managing Costs*). Looking forward, the government is projecting a deficit of [$4.3 billion] in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19, consistent with the *2016 Budget*. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief to Ontario consumers, health care, and opening up additional child care spaces. Consistent with the regulated accounting treatment adopted in the 2015-16 Public Accounts related to pension assets, the outlook reflects a cautious approach to forecasting pension expense each year, reflecting the Auditor	

	General's interpretation for pension accounting which eliminates the amount of pension assets which otherwise might have been reported for the Ontario Teachers' Pension Plan and the OPSEU Pension Plan. As announced by the government, a Pension Asset Expert Advisory Panel is being established to assess the application of public sector accounting standards to Ontario's joint defined pension plans. The results of the Panel will help inform the Province's future accounting treatment for jointly sponsored pension plans. In the meantime, in order to be transparent and financially prudent, the government has taken a cautious approach and reflected the Auditor General's interpretation in its fiscal projections over the fiscal planning period. Estimated fiscal impacts are based on the most recent valuations for the Province's jointly sponsored pension plans. Even after reflecting the pension-related impact in the fiscal outlook, the government is still on track to balance the budget in 2017–18 and 2018–19. Key factors contributing to this forecast result are higher than expected revenue projections, mainly arising from stronger 2015 tax revenue performance and a strong 2016 housing market outlook for	'based on valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

	Ontario. In addition, to mitigate the potential impact of the adopted pension treatment, the government has forecast a reduction in the reserve which is included in the fiscal plan to protect the Province from unexpected changes. (see Chapter III, Section B: *Fiscal Outlook*).	
• Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that. ○ This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".	Earlier this fall, the Auditor General raised issues with the government's longstanding approach to accounting for pension assets of its jointly sponsored pension plans Quite unexpectedly, we found ourselves in the middle of an accounting disagreement over how the government has accounted for these assets over the past 14 years. Previous Auditor Generals have accepted this accounting treatment as has the current Auditor General for the past two years. To help provide clarity and to inform our decision on future accounting treatment for pension plans, we announced the formation of a Pension Asset Expert Advisory Panel to review the application of public sector accounting standards to Ontario's pension plans. We are expecting the Panel's report by the end of the calendar year Given how recently this came to our attention, and the inability to achieve agreement with	OTB to insert reference to approach taken to FES forecasts (see Chapter 2A reference above).

	the Auditor General on the appropriate accounting treatment, the government regulated accounting for its jointly defined benefit plans to reflect the Auditor General's interpretation of the standards for 2015-16. The government has estimated the potential impact of the Auditor General's interpretation on the Province's finances based on the most recent valuations of the jointly sponsored defined benefit plans which were completed almost a year ago. Pension expense in the future will be subject to change based on the results of the Panel's deliberations as well as asset performance, changes to economic assumptions and agreements reached with the co-sponsors of the plans regarding changes to contribution rates. Consistent with the approach taken in preparing the 2015-16 Public Accounts, the government has taken a cautious approach to its fiscal forecast and incorporated an increased pension expense each year reflecting the Auditor General's interpretation {The result is a higher deficit than originally planned for 2016-17 ($4.8B).} Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19. **We are able to manage the potential impact as a result of:**	

	- Higher than expected revenue projections, mainly arising from a stronger economic outlook for Ontario, and - By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers. In the absence of the impact of the Auditor General's accounting treatment of pension assets, for the eighth consecutive year the Provinces was forecasting a lower deficit target than outlined in the Budget. Our prudent approach to fiscal management coupled with stronger than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs. This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget. <u>Reserve</u> What: Using a portion of the reserve Why: - The regulated change in accounting treatment for pension assets to reflect	

	the Auditor General's interpretation of PSAB was an unbudgeted /unexpected (?)change to the accounting treatment for net pension assets of jointly sponsored pension plans. The issues raised by the Auditor General had not been raised in the previous 14 years since the pension accounting standard was adopted in 2001.	
• Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected." • Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate	Program expense is projected to grow from \$125.3 billion in 2016–17 to \$131.7 billion in 2018–19, and is forecast to be higher in each year compared to the 2016 Budget plan. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief, additional investments in hospitals, and opening up new child care spaces. Consistent with the regulated accounting treatment for pensions reflected in the *2015–2016 Public Accounts*, the outlook also reflects a cautious treatment of the pension expense each year consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans (see Chapter II, Section B: *Transforming Government and Managing Costs*).	

and should we be saying it at all?	Total expense is also projected to be higher in each year compared to the 2016 Budget, but is partly mitigated by lower-than-forecast interest on debt expense resulting from lower-than-forecast interest rates. The *2016 Budget* included a reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19, to protect the fiscal outlook against unforeseen adverse changes. The reserve is being reduced to $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19 to offset the unexpected change to the accounting treatment for net pension assets of jointly sponsored pension plans. The government has reflected the described treatment of the pension expense each year over the forecast period without jeopardizing spending in key priority areas. Instead, the impact of the change in accounting treatment for pension assets is being managed through higher than expected revenue projections and reducing the reserve. The 2016–17 program expense outlook is $3.1 billion higher than the projection in the *2016 Budget*. This is mainly the result of [placeholder for language on key expense changes] and incorporating an $ X billion in	

	increased pension expense to reflect the Auditor General's interpretation of public sector accounting standards for jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]** The 2016–17 outlook also includes a $0.4 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The reserve is reduced by $0.6 billion from the 2016 Budget plan to mitigate the fiscal impact of the unbudgeted/unexpected? change in accounting treatment reflected for pension assets of jointly sponsored pension plans. **[Framework_OB]** A $2.2 billion pension expense increase to reflect the impact of the Auditor General's accounting treatment of pension assets of jointly sponsored pension plans. This impact reflects a consistent approach taken in the 2015–2016 Public Accounts, and is based on the most recent actuarial valuations for the Ontario Teachers' Pension Plan and the OPSEU Pension Plan. **Medium-Term Expense Outlook**	'actuarial valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

	Program expense is projected to be $3.5 billion higher in 2017–18 and $4.1 billion higher in 2018–19 compared to the 2016 Budget projections. Program expense outlook over the medium term is higher than forecast due to [placeholder for key expense changes] and also incorporates the impact of a change in forecast pension expense each year as a result of adopting the approach taken in the *2015-2016 Public Accounts* which reflected the Auditor General's interpretation of the accounting standards for pension assets of jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]** **Fiscal Prudence** As required by the *Fiscal Transparency and Accountability Act, 2004*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The current fiscal outlook includes a reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19, reduced from the *2016 Budget* to mitigate the impact of the unbudgeted/unexpected? change to the accounting treatment for net? pension assets of jointly sponsored pension	

	plans. **[Framework_OB]**	
• Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.		Extract not available – To be reviewed
• Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?	**Chapter 2A** *Chart 2.1, p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 reflect forecast pension expense consistent with the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets." **Chapter 3B** *Table "Ontario's Medium-Term Fiscal Plan and*	

Commented [NP1]: 'Net' not always used. Confirm if desired/required.

	Outlook" p. 4: "2015-16 actual results reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 reflect forecast pension expense consistent with the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets." *Table "2016-17 In-Year Fiscal Update" p. 6:* "Budget Plan reflects the Province's historic application of public sector accounting standards for net pension assets of jointly sponsored pension plans. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."" *Table "Summary of Expense Changes since the 2016 Budget" p.9* Footnote for Pensions Accounting Impact: "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the	

	Auditor General's interpretation of public sector accounting standards for pension assets." *Table "Summary of Medium-Term Expense Outlook" p.15* Addition to footnote 1 before "The comparative impact": "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets." *Tables "Total Expense" and "Details of Other Expense" p. 19-20:* Footnotes for Health and Long-Term Care; Training, Colleges and Universities; Teachers' Pension Plan and Employee and Pensioner Benefits: "2015-16 expense actuals reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to pension assets which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts. " *Table "Ten-Year Review of Selected Financial*	

Commented [NP2]: Confirm if net is to be used (consistency)

	and Economic Statistics" p. 22: "Results presented for periods prior 2015-16 reflect the Province's historical application of public sector accounting standards for pension assets of jointly sponsored pension plans. 2015-16 actuals reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans. The Outlook for 2016-17 reflects forecast pension expense consistent the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."	