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 unexpected expense resulting from the government regulating the Auditor General's accounting treatment for net pension assets for 2015–16 (see Chapter II, Section B: *Transforming Government and Managing Costs*).Even with the impact of the regulated accounting for pension assets, the 2015-16 results mark the seventh year in a row that Ontario has beaten its annual deficit target. By overachieving on its fiscal targets, the government is managing the Province's debt and keeping interest on debt at a manageable level. This will protect Ontarians, today and in the future, from rising interest costs, which could otherwise crowd out spending on programs and services that support Ontarians in their everyday lives. 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, support for public hospitals, and opening up additional child care spaces. 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. 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. (insert ref to reserve offset here). Other 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 Ontario. ~~In addition, to mitigate the potential impact of the adopted pension treatment, the government reduced the reserve which is included in the fiscal plan to protect the Province from unexpected changes.~~ (see Chapter III, Section B: *Fiscal Outlook*).	

Commented [NP1]: cautious

• 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 "cautious treatment" which was language Cindy wanted removed to be replaced with "cautious".	**Pensions reporting** In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago. After careful consideration, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16. To comply with the interpretation, a time-limited regulatory amendment ('the pension adjustment') was required to change the accounting treatment for the *Public Accounts of Ontario 2015-16*.	This section expanded to provide the complete narrative on pension-related background and impact. To be cross referenced by other sections to minimize duplication.

	The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015-16, based on actuarial valuations as at December 31, 2015. Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term Outlook also reflects a cautious approach to forecasting pension expense each year as well as the corresponding net debt and accumulated deficit amounts. The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans sponsor or sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's where net pension assets represent the amount by which the value of contributions made to the plans exceeds the cumulative obligation recognized under public sector accounting standards. The Panel's recommendations will help inform	

	the preparation of the Budget and the Province's future accounting treatment for net pension assets.	
• 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 and should we be saying it at all?	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 to Ontario consumers and support for public hospitals. Consistent with the regulated accounting treatment for pensions reflected in the *Public Accounts of Ontario 2015–2016*, 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 plans (see Chapter II, Section B: *Transforming Government and Managing Costs*). 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 mitigate the impact of the unexpected change to the accounting treatment for net pension assets. The government has reflected the treatment of the pension expense each year over the forecast period without jeopardizing spending in key priority areas. The reserve has been reduced to help mitigate the pension expense impact. In addition, higher-than-expected revenues and lower –than-expected interest on debt costs will help the government remain on track to balance the budget in 2017-18 and 2018-19. The 2016–17 program expense outlook is $3.1 billion higher than the projection in the *2016 Budget*. This reflects electricity cost relief and an investment to support public hospitals. It also incorporates$2.2 billion in increased pension expense to reflect the Auditor General's interpretation of public sector accounting standards for net pension assets. **[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 unexpected change in accounting treatment for net pension assets.**[Framework_OB]** A $2.2 billion pension expense increase to reflect the impact of the Auditor General's accounting treatment of net pension assets. This potential impact reflects a consistent approach for pension expense as reported in the *Public Accounts of Ontario 2015–2016*. See Chapter 2B for details on the treatment of Provincial net pension assets. **Medium-Term Expense Outlook** 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. The program expense outlook over the medium term is higher due to electricity cost relief for consumers. It also incorporates the impact of a change in forecast pension expense each year as a result of adopting the approach taken in the *Public Accounts of Ontario 2015-16,* which reflected the Auditor General's interpretation of the accounting standards for pension plans. **[Framework_OB, PEMD_TBS,**	

<table>
<tr><td></td><td>OPCD_TBS]

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards to Ontario’s pension plans. The Panel’s recommendations will help inform the Province’s future accounting treatment net pension assets.

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 unexpected change to the accounting treatment for net pension assets.
[Framework_OB]</td><td></td></tr>
<tr><td>• Borrowing Chapter – has very different language than the other chapters on this. Refers to “prudent and risk-averse approach” (instead of cautious</td><td>As described in Chapter 2B, the Province, adopting a cautious approach, has included the pension adjustment in its expense projections.   The projected pension adjustment of $2.2 billion for 2016-17 is a</td><td></td></tr>
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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.	non-cash adjustment and has no impact the Province’s projected borrowings or its total debt. The pension adjustment is offset by xxx, allowing the Province to reduce both short-term and long-term borrowings from what was projected in the *2016 Budget*. Net Debt –to-GDP The pension adjustment for the *Public Accounts of Ontario 2015-16*resulted in the net-debt-to-GDP ratio increasing to 40.9 per cent as of March 31, 2016 and is projected to be 41.2 per cent as at March 31, 2017. The pension adjustment that increased net debt by $10.7 billion in 2015-16 has no impact on the Province’s total debt or current and future borrowings. Including the pension adjustment of $10.7 billion, the accumulated deficit is projected to be $207.0 billion as at March 31, 2017. The projected difference of $110.9 billion between net debt and accumulated deficit is due to the Province’s consistent level of investment in infrastructure.	
• 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	**Chapter 2A** *Chart 2.1, p. 4:* “2015-16 actual results reflect the regulated	

it accounting for pension assets or pension expense?	accounting treatment adopted in the *Public Accounts of Ontario 2015-16* related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 also reflects this approach to forecast pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets." **Chapter 3B** *Table "Ontario's Medium-Term Fiscal Plan and Outlook" p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16* related to net pension assets. The Outlook for 2016-17 to 2018-19 also reflects this approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets." *Table "2016-17 In-Year Fiscal Update" p. 6:* The Budget Plan reflects the Province's historic application of public sector accounting standards for net pension assets. The Current Outlook reflects the approach to forecasting pension expense adopted in the *Public Accounts of Ontario 2015-16* related to net pension assets, consistent with the Auditor General's interpretation of public sector	

	accounting standards." *Table "Summary of Expense Changes since the 2016 Budget" p.9* Footnote for Pensions Accounting Impact: "Reflects the approach to forecasting pension expense consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets which was regulated in the *Public Accounts of Ontario 2015-16*." *Table "Summary of Medium-Term Expense Outlook" p.15* Addition to footnote 1 before "The comparative impact": "Current Outlook reflects the approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net 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 *Public Accounts of Ontario 2015-16* related to net pension assets. Outlook for 2016-17 also reflects this approach to	

	forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets. " *Table "Ten-Year Review of Selected Financial and Economic Statistics" p. 22:* "2015-16 actuals reflect the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*related to net pension assets. Outlook for 2016-17 also reflects this approach to forecasting pension expense consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets."	