Media Event: FAO Economic and Fiscal Outlook Report

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FAO ECONOMIC AND FISCAL OUTLOOK REPORT
November 3, 2016

Time / Location:
12:15 p.m. / Media Studio, Queen's Park

Speakers:
J. David Wake, acting Financial Accountability Officer; David West, Financial Accountability Office. MPPs Vic Fedeli and Catherine Fife scrummed with reporters afterwards.

Media Attendance:
Print – 5
TV – 6
Radio – 1

Media Outlets:
Jones – CP; Benzie – Star; Jeffords – Sun; Zochodne – QP Briefing; Smith – QP Today; Lamoureux - Radio Canada TV; Unidentified – Newstalk 1010; Rath - CHCH Television (scrums only); Tumelty - City TV; Wong – CP24 (scrums only)

Statements:
David Wake: My name is David Wake. I'm the Ontario Integrity Commissioner but as of last week I was also appointed as the Financial Accountability Officer on a temporary basis while Stephen Leclair's on medical leave. I can also indicate we put this gathering back 15 to 20 minutes to accommodate you because you had questions elsewhere. Unfortunately I have to leave for another engagement so I may have to slip away at some point. But David West can continue with answering any questions you may have. So last week after I agreed to take on the additional duties of the Financial Accountability Officer on a temporary basis, I met with the staff of that office and reviewed its draft fall 2016 update. I decided that this report should be released as originally contemplated by the office. I also decided that that timing of the FAO report's release in fairness to the minister who will soon be issuing his fall economic statement, should be prior to the minister's statement. So accordingly today I delivered to the speaker for tabling, a report providing an updated economic and fiscal outlook for the province of Ontario. The report details the FAO's assessment of the current economic outlook and the province's fiscal position given developments since the FAO's last economic and fiscal outlook released in May. Based on this assessment and in the absence of additional government measures Ontario's budget would be expected in deficit over the next five years. So at this point I'll ask the Financial Accountability Office's chief economist David West to provide an overview of the report's highlights.

David West: Thank you commissioner Wake. There've been three significant developments since the FAO's Spring report. The release of the 2015-2016 Public Accounts earlier in October; the government's speech from the Throne in September and a revised economic outlook. Each of these developments had a significant impact on the province's fiscal position. The recent Public Accounts reported than expected tax revenues in the fiscal year 2015-16 which translated into higher revenues over the outlook. The Public Accounts also included a legislated change in the accounting treatment for jointly sponsored pension plans, which increased the province's net debt by $10.7 billion in 2015-16 and the annual deficit by $1.5 billion in that same year. However there is significant uncertainty on the impact of this accounting change going forward. In developing this updated projection, the FAO has assumed a program expense would $1.5 billion higher each year over the outlook as a result of the accounting change. The report provides Ontario's fiscal position both including and excluding the accounting change to allow for consistency with the 2015-16 Public Accounts as well comparability with our spring report. The second major development since the FAO's spring report was the government's Throne Speech which included new commitments to expand childcare spaces and provide an HST rebate on electricity bills. When fully phased in these commitments are expected to result in new operating expense of about $1.8 billion per year. Finally the outlook for the economic growth in Ontario has moderated since the spring, reflecting weaker economic conditions in Canada and globally. Slightly slower economic growth leads to modestly lower tax revenues. At the same time, slower growth of the Canadian economy has resulted in a lower interest rate forecast which reduces projection for interest on debt expense. Excluding the change in accounting treatment for pension plans, these developments, the 2015-16 Public Accounts, the Throne Speech commitments and a revised economic outlook were largely offsetting, resulting in a modest deterioration of the budget over the outlook, moderately higher budget deficit over the outlook compared with the FAO's Spring report. Including the assumed impact of the accounting change, the FAO project Ontario budget deficits of $5.2-billion in 2016-17 and $2.6-billion in 2017-18. Beginning of 2018-19 the deficit is forecasted to deteriorate steadily to $3.7-billion by 2020-21 as the growth of revenue is outpaced by increases in program expense and interest on debt. However the government remains committed to balancing the budget in 2017-18 and maintaining balance going forward. Eliminating the deficit by 2017-18 will be more challenging given the assumed impact of the change in accounting treatment. Even so achieving budget balance in 2017-18 may still be within the government's reach through the sale of public assets, the allocation of new revenues to existing spending or through other steps. But maintaining a balanced budget after 2017-18 will likely require additional to raise revenue or lower expense. Based on the FAO's projections Ontario's net debt is expected to rise by $64-billion over the next five years to $370 billion dollars in 2020-21. The result of accumulative deficits, capital spending and a change in accounting treatment. This about $20-billion higher than we forecast in our spring outlook primarily due to the accounting change. As a result of the higher debt, combined with slightly slower growth in nominal GDP Ontario's debt-to-GDP ratio is expected to plateau at 41%, significantly above the FAO's spring projects. As noted in the FAO spring report, the government has committed to reduce the debt to GDP ratio to 27%, approximately 14 percentage points below the projected value in 2020-21, but has yet to provide any details on how or when it plans to achieve this goal. This report summarizes the FAO's estimates of the most likely outcomes for Ontario's fiscal position, given developments over the past six months. (Inaudible) highlighted in the FAO's spring report, there are significant risks. Economic growth turns out to be even moderately weaker than projected, tax revenues will be lower. At the same, pressures to increase the growth in program spending continue to build, reflecting the growth in population and price inflation. The government has also built into its fiscal plan specific assumptions about revenues from the new cap-and-trade program and from new federal transfers, assumptions which are incorporated in the FAO's projections. These two revenue sources are expected to total over $3 billion in 2017-18. Differences in the timing or net benefit of these new revenues would have a significant impact on the government's fiscal position. To summarize, there have been a number of significant developments since the FAO's spring report on Ontario's economic and fiscal outlook. When taken together, these developments suggest a moderate deterioration in the province's fiscal position compared to our spring report. However, when the assumed impact of the change in the accounting treatment of jointly-sponsored pension plans is included, the projected deficits become more significant, suggesting the need for additional fiscal measures to achieve the government's goal of a balanced budget. Thank you, the commissioner and I are happy to take questions.

Media Questions:

Q. Jones: How difficult is it going to be to lower the net-debt-to-GDP ratio by 14 percentage points?

West: I don't know how to respond to how difficult (inaudible) be. It's certainly going to be a challenge. I mean, for the next five years we see the debt-to-GDP ratio basically plateauing at 41 per cent, and the government hasn't released plans to how it would anticipate to lower that ratio.

Q. Jeffords: It sounds like the accounting squabble that took place earlier with the AG has had a domino effect and is now rolling out and impacting net debt as well (inaudible) probably predictable outcomes. Could you talk about the – just how pronounced that impact is here?

West: So in our spring report, we forecast (inaudible) the net debt to rise to $350 billion by 2020-21. In this current projection, we have net debt rising to $370 billion. As I said, approximately $20 billion higher than what we anticipated in the spring. Deficits are just slightly larger now in this projection. (Inaudible) $18 billion of that $20-billion increase is largely attributable to the accounting change. It's worth noting that the accounting change is not cash, right. This is a non-cash adjustment to the government's books.

Q. Lamoureux: Can you explain as to what the government will have to do if they want to stick to their plan to balance the budget by next year?

West: Well as we point out in the report, it seems likely that the government would have to either raise revenues or lower expense. It's the – the FAO's mandate is to provide an account – you know, a reasonable, independent projections for the economy and the fiscal position of the government. It's not within our mandate to provide policy recommendations or advice on the specific measures that they may choose.

Q. Jones: I couldn't help but notice that in the report, you cite media reports, Queen's Park Briefing specifically, for the – what the government says it will cost – the Throne Speech commitments, the hydro rebate and the child care spaces. Is the office still having trouble getting information from the government, or is there just no information to be had on those spending promises?

West: That's a fair question. So maybe you'll answer the second part of the question. So we based – we did run our report, draft version of our report, by government officials and they agreed – and we lay out our assumptions for the roll-out of those two spending commitments. The government didn't comment on it. I think, you know, they don't have a projection for the roll-out of these (inaudible) one that they weren't going to share with us. I don't see it as a material – they – I don't think it would make a material impact on our projections though the actual timing of the introduction of these programs – and as I said, the government did see what we're preparing to release and we're comfortable with that.

Wake: Just as a follow-up to that, I (inaudible) indicate that maybe past frustrations expressed in the annual report, to which I think you're alluding, may have been addressed by the issuance of the order in council early last month. And I can tell that subsequent to that, we've met with the Secretary of Cabinet and the ministry officials so that at this point we're satisfied that things are in place so that this information can be obtained if it's needed. We'll see, but I think the structure's now in place for the FAO to get all of the material it needs.

Q. Zochodne: Is the FAO going to try and flesh out some more details about the rebate and the child care spaces going forward?

West: So we would be looking forward to the government's own fiscal statement coming in – expected in coming weeks, and would review our assumption (inaudible) in light of that. If necessary, we could make additional requests at that time for additional information if we thought it was necessary.

Q. Zochodne: How big of a swing is that on the government's books that those – the spending promises?

West: $1.8 billion and some. And as I said, you know, the – we looked at a number of developments. That was one of the several developments, and when you include the better-than-expected results from the Public Accounts, savings on interest-on-debt expense, (inaudible) weaker economic growth, which leads to lower tax revenues, all told, all in, there's a moderate deterioration in the deficit. Throw in the accounting change, and it's a more significant deterioration.

<u>**Questions for MPP Fedeli:**</u>

Well we've always known there was a trust deficit with this government and now that we have had it proved there's also a financial deficit. We've heard from the FAO that Ontario will plunge into deficit and stay there for at least the very next five years. And that is contrary to what the government says. The FAO also told us today the only way the government can artificially balance the budget for the election year is to continue to sell assets. So these are the one-time sale of assets and he has also said when the assets sales run out that's why our deficits will continue on a downward spiral for the next fears.

Q. Jones: Which scenario do you think we'll see? Do you think we'll see continued deficits or do you think we'll see them raise taxes to cancel those debts?

I think we're going to see both. We're going to see continued deficits, the FAO is fairly clear about that and I think you're going to continue to see raised taxes. They raised taxes 20% in the past five years which oddly makes us the most taxed province in all of Canada and the same time the most indebted subnational on the planet. That just defies logic that you be both.

Q. Jones: They really seem to have gone all in on this promise to balance the budget in 2017-18. You don't think that they'll do anything at all cost to get there?

They will and that's why they'll artificially balance the budget. They will sell the OPG headquarters across the street, they'll continue to sell Hydro One, they'll continue to sell lands such as the LCBO headquarters they will sell anything that isn't nailed down and that's the only way, according to the FAO that they are going to balance, artificially, is by the one-time sale of assets. And of course he also said what happens when you run out of assets to sell? That's why we have the next five years of deficits. We have a structural deficit in the province of Ontario.

Q. Lamoureux: So what will you do if you form the government in 2018? (inaudible) the situation?

The first thing you would do is cut waste, mismanagement and scandal. That's really when you look at some of the things that have happened in the last month we learned we many billions were wasted on the last one. $308 million were wasted on the failed attempt to modernize the OLG. It was $300 million was spent in five different hydro scandals, including the $179 million in the Windstream case, you've got $25 million in another case, $12 million in another case, $300 million alone wasted in two-weeks this month in hydro. So it's waste mismanagement and scandals that have caused this government to continue their deficits.

Q. Zochodne: (inaudible) situation with whoever forms government in 2018 is going to inherit some much worse than expected (inaudible)

It's interesting you bring that up because in advance, the law states that six months in advance of the next election the Auditor-General must bring out a report that verifies the government's numbers. Well the government is moving the election to the 7th of June 2018 which would prohibit the Auditor-General from performing that duty. So we are going to into next election on June 7th 2018 without having any audited numbers. That may or may not be one of the reasons the government is moving to that date.

Q. Zochodne: How will that stop (inaudible)

Because it's six months in advance would be December of 2017 and the year isn't over then they would be working with a year old set of numbers and the Auditor has confirmed that to us, that she cannot perform an audit by six months in advance, the 7th of June so we're going to go into the next election absolutely not knowing any audit numbers whatsoever.

Q. Zochodne: Does it give you a good idea based on (inaudible) Fall Economic Statement?

No she has explained that her role would be to use the numbers that are provided at year end only and this would prohibit that so we're going to go into the next election, only with the government's word that they've balanced and of course we now know they have a trust deficit in Ontario.

Q. Zochodne: She would have to compare an outlook for you based off of the 2017 year end financials?

Which we're going to get from her anyway about a year in advance.

Q. Jeffords: What's the solution to that then? What can be done?

That's something that the Auditor General has to look into and try to decide how on Earth that can be corrected. Here we're going into an election with a government that is telling us one thing, the Financial Accountability Officer of Ontario is telling us something 180 degrees completely different than the government is telling. You have to decide which one to trust and I think there's a trust deficit in Ontario, in addition to fiscal (inaudible)

Q. Rath: How can they be so different?

Well they can be different because the government is counting on the one-time sale of assets. They're literally burning the furniture to heat the house. Selling off Hydro One and instead of putting that in reserves as you would do with one-time sale they're using that as general revenue, well that revenue does not repeat year after year. Selling OPG headquarters across the street is a desperate move to bring revenue in for one year to artificially balance. They promised us so much yet they cannot contain themselves. Spending has continued to grow faster than the revenue and that's the problem. They just can't help themselves.

<u>**Questions for MPP Fife:**</u>
(joined in progress) desperately trying to rebrand themselves. The gamble they took is to sell off Hydro One. That has proven to not work. And also you've seen other public assets that are on the chopping block, like Ontario Place. This is very much a real possibility here at Queen's Park. So this government is scrambling on almost every file around controlling spending in some areas, and controlling waste. And clearly they are failing. And thankfully we have the Financial Accountability Office to actually prove that to the people of this province.

Q. Tumelty: The officer also said that the long-term—we're going to be struggling with our debt.

Yes. I mean, and the accounting treatment is actually part of that. And that's why when the Auditor General stood her ground against this government, that's the important piece of that independent officer, to actually tell the truth of what's happening here at Queen's Park. Quite honestly, we are—any party going forward is going to have to deal with some very difficult decisions. The selling off of Hydro One, though, needs to stop. It has proven to not be successful. It is a quick cash grab, which they've proven today will not serve the people of the province in the long-term.

Q. Unidentified: (inaudible) FAO saying (inaudible)

Absolutely.

Q. Jeffords: So, how would you explain to Ontarians why that is the case?

Well, I mean, we have Auditor General reports (inaudible) ten years which shows the waste and mismanagement. The increased privatization on almost every portfolio. The Financial Accountability Officer has obviously looked at a downgrade in the deficit reduction, because of lost revenue and because of increased promises around spending. We know going forward that if this government is going to try to reach their targets, they're going to have to start cutting. And it's our job to try to mitigate some of that damage.

Q. Jones: You think they may cut or (inaudible)

This government, I mean, this government has—who knows what this government's going to do. I really do feel, as the finance critic for the NDP, that they are making it up as they go along. And we have the Auditor General and the Financial Accountability Officer to expose what is happening in the province, but as we've said, time and again, the one-time cash grab with the sell-off of Hydro One has proven to be a failure. Kathleen Wynne gambled on that, and now she really is committed to selling off everything, including Ontario Place.

Q. Lamoureux: What do you make of the fact the Minister still said, no, we're in control, even after this report, and he's saying we will balance the books next year?

I know. In the briefing this morning it was interesting. The government did not show up for the briefing and I asked that very question. There is a disconnect between the spin that is coming right from the Premier's Office, and thankfully we actually have this report to counter that. This is a government that is not actually willing to do the hard work of looking at the waste that's actually here at Queen's Park. And we know going forward that if they are going to try to meet that target, they are going to cut public services and they are going to continue to sell off the assets that belong to the people of this province.

Q. Zochodne: Did you manage to eavesdrop at all on what Vic was saying about the—you're not going to get a financial statement going into the next election?

You know, I—that's speculation on his part. The Auditor General [end of recording]

N.B.: Comments captured are not verbatim quotes

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