# FW: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

**From:** "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
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**Date:** Wed, 02 May 2018 15:46:32 -0400

FYI – transcripts from today's scrums re: FAO report. Relevant pieces highlighted.

**From:** Tharani, Alisha (TBS)
**Sent:** May 2, 2018 3:42 PM
**To:** Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Rubin, Jack (TBS); Hadisi, Lawvin (TBS)
**Cc:** @TBS-L-Issues and Media; Ovenden, Erin (TBS)
**Subject:** RE: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

Hello,

See below for transcripts from today's scrums with Minister Sousa and MPP Vic Fedeli.

A brief summary of items of particular interest to TBS include the following and are highlighted in the transcript below:

**Minister Sousa**
- FAO & AG agree that the government's assumptions are cautious and reasonable
- AG has cited two accounting issues; pension assets and the Fair Hydro Plan – will leave these matters between the AG, professional accountants and internationally renowned firms

**MPP Fedeli**
- FAO has agreed with the AG that there's a $12 billion deficit; both have said that the "government is not truthful with their books"
- When asked whether the PCs are going to count the FHP and pension funds in their budget: We respect the opinion of AG and FAO; "We are going to have a full commission of inquiry to find out what happened and to guide us with ways out of the mess that the Liberals created."

Best,

Alisha

**Alisha Tharani**
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**MEDIA EVENT: MINISTERS' PRE-CABINET SCRUMS**
May 2, 2018

**Location:**
Outside East Doors, Legislative Chamber

**Speakers:**
Minister Sousa; MPP Vic Fedeli.

**Media Attendance:**
Print – 10
TV – 6
Radio – 0

**Media Outlets:**
Loriggio – CP; Jeffords – CP; Ferguson – Star; Rushowy – Star; Smith Cross – QP Briefing; Hains – QP Briefing; Reeves – QP Today; Crawley - CBC Radio/TV; Brule - Radio Canada/CJBC; Fitzpatrick – CBC Online; Rath - CHCH Television; Tumelty - City TV; Morissette – TFO; Walsh – iPolitics;

**Media Questions:**

**Questions for Minister Sousa:**
Q. Rushowy: The FAO says your debt and deficit levels are risky and makes Ontario very vulnerable. What do you say to that?

Well I appreciate the FAO's projections and assessment of our Budget, and he does also state that we have built in a number of initiatives that's good for our society and good for our economy. He also cites – as did the AGO – that our assumptions are cautious and reasonable. And so we've taken those issues and we put forward a plan that (inaudible) meets the needs of the province. The issues that the FAO and the attorney general or the Auditor General has cited are two major issues: one around the pension assets, and one (inaudible) Fair Hydro Plan which they've been in dispute with – or the AG (inaudible) in dispute with other auditors and experts. I'll leave that dispute to them. I'm managing what I can control. I've taken prudence, I've taken steps to be cautious, and we've exceeded our targets every year – even when the FAO estimates that it may not be, we've always overachieved.

Q. Walsh: The FAO says that you will have an even more difficult time returning to balance given your current spending and your current promises, than after the 2008 recession. What do you – what's your response to that?

Well it's appropriate to take a cautious approach, and that is why even whatever the economists and independent economists have estimated we would do, I've averaged them out and I've tempered down lower. And as I've said, I put in – put in a lot of contingencies and reserves to absorb any possible shocks to the system if they occur. Again, I've done that in previous budgets also, and that's why we're borrowing $30 billion less than we've anticipated. It's why we've achieved a balance – in fact, I have a surplus. But going forward, I've taken the same prudent measures as we proceed forward in our approach and in our (inaudible).

Q. Walsh: Do you agree though that it will require even more austerity? We've seen hospitals struggling with flat budgets and now essentially they're saying that there will be a return to that after this initial injection of cash.

Well we're making a decision, a very purposeful decision to support further funding for hospitals, health care, education. That's why we introduced OHIP+ for not only those under 25 (inaudible) over 65 as well. It's why we're producing and introducing child care for families. That in fact is built into our plan and again, I've taken the cautious approach to lower expectations for growth just to make certain that what we propose will be achieved, and our track back to balance is there. Now, the assumptions for increased spending is one that the FAO is making. It's not one that I'm making.

Q. Smith Cross: (inaudible) The FAO is pointing out that you're proposing severe funding restraint and it's the same kind of thing that you're attacking the PCs for planning. (Inaudible) the same thing.

Not at all. In fact, we are increasing spending. We are investing in the very programs that matter to the people of Ontario, and including infrastructure spending, highways, roads, bridges, hospitals, schools, water mains. These things matter. And it's a $230-billion program over 14 years. The opposition are not (inaudible) to do that. They're in fact saying they'll make those cuts and it's what they've done in the past. So we're not going to put people in harm's way. We're not going to leave people behind as we proceed (inaudible) we've never cut programs as we – as we made our track back to balance. And we recognize that that's also (inaudible).

Q. Smith Cross: The number they put in there is $15 billion.

So the – yeah, well, the estimate by the FAO has been similar estimates in the past. And Public Accounts is what matters, right? Our quarterly report just came out. It again affirmed that we have a balanced budget and that we're in a $600-million surplus. Those are actual results that have – and they over – we overachieved on them based upon our own projections. So – and that of the FAO. The FAO has projected in the past, and we've always beaten those expectations. We will do so again because I've been taking very cautious measures and I have put in contingencies and reserves to ensure that we track that.

Q. Walsh: What is the point of starting an FAO if you're actually going to take heed or take the advice that they're putting forward?

But I absolutely do take the advice.

Q. Walsh: No you're not. He says it's three billion deficit for last year.

No, so every year that we have – we go through this exercise. It's important for (inaudible) for us to have that discussion and to be challenged by those expectations, and it's why I look at the sensitivities that the FAO brings forward so that we can ensure as a living document – which is what this is, right? These are not actuals. These are projections. So we have the ability to maneuver and to change and to do what's necessary to come back to balance without cutting the programs and to continue to support the initiatives. And we've (inaudible) – we've done that year over year.

Q. Walsh: Very clearly he and the AG have said that you actually do not take what they say into account, that you are full steam ahead on your own path.
I do work with the FAO and the AG. The AG has two issues that she's disputing. Those matters are between her and professional accountants and internationally-renowned firms who have stated that her assumptions of the principles are not what they say it is. So I'll leave that to them. I can't control those disputes, I can control the measures that I put in place, the policy that I put in and the programs and those have tangible results and meanings to the people of Ontario. We're investing in them, we're investing in our economy, we're growing the economy, providing full capacity by way of employment. We need to do more because not everybody is feeling it. That's why I'm not going to cut back on any of those measures.

Q. Smith Cross: They're arguing that you [inaudible] targets in the past, it doesn't seem to be –[inaudible] and the FAO is saying the economy isn't going to be as good as it was in the past [inaudible] meet everybody's targets?

I'm not expecting the economy to grow as fast. That's why I'm taking even more cautious measures and the FAO and the Auditor General has affirmed that we are being cautious in our projections. So the FAO's estimates are based on the recalibration of the start, which is the dispute between those two matters with the Auditor General. So we're basing our assumption that, as are the opposition frankly, on their projections, their plans, they're using our foundation of accounting and our principles to move forward. So I will continue to do what I believe is appropriate to ensure that we invest in programs and [inaudible].

Q. Smith Cross: [inaudible] for younger Ontarians? [inaudible]

Well, we are investing a lot more for our young people, the FAO talked about the appropriateness of some of our spending for social programs, as well as economic initiatives. And he cited that's important too. We're doing that. Again in 40 years, there's only been eight balanced budget and the Conservatives have only done three of them, we've done the rest. So I have done one now and we're going continue to take those balanced approach to ensure that the economy grows and that we are cautious about our assumptions and our spending.

Q. Smith Cross: Isn't it easier to meet your cautious assumptions in a time of -- in a boom time, rather than a slower time that we're entering into now?

Well, when times are good you want to be able to build up your economy and build up your ability. We have over $30 billion in liquid reserves right now in our economy and in our budget. In fact, our ability to borrow has improved. We have actually already met our targets for the year. So we are continuing to attract investment, continue to attract confidence, DBRS and others have affirmed our double A rating and DBRS said it's stable. So we're going to continue doing what's appropriate. I am very sensitive about the degree of growth in our economy. That's why I'm being cautious.

Q. Walsh: Minister, he says that you're transferring costs of services to future generations, that you're downloading the cost, by not realizing the full cost of raising revenues now, you're essentially having services now that future generations will have to pay for?

So our accumulated deficits since we've been having deficits, which has been pretty much the case for most of those years, our accumulated deficit as a function of the GDP is the same today as it was 25, 30 years ago. Our interest on debt as a function of our revenue is lower today than it was 25 years ago –

Q. Walsh: Your debt to GDP ratio is going up and your debt is going up Minister –

And I've locked in those rates for 30 to 40 years to again ensure that we don't get into those shocks. Our debt to GDP has tapered down since I became Finance Minister. We are cautious about what that means going forward and we're taking those appropriate steps.

Q. Walsh: And did you remove the target of going to 35% GDP ratio by 2024? So is 35%, is that the target for 2020 or 25?

Actually, I’m trying to bring it below 30% over a period of time and it's in the budget. We actually had assessed –

Q. Walsh: You removed the target in the last budget.

I know, but I still want to be able to manage it effectively so that we don't over exceed our debt to GDP. That's an important measure for us.

Q. Walsh: So it’s over 40%?

It’s not over 40%, it’s now at 37% and we –

Q. Walsh: The FAO says it’s going to go to 43%.

Again, based on principles of accounting that -- cause the debt doesn't change, right, our degree of debt, you were talking about accounting assumptions. The actual issue of debt remains the same. And I will continue to – and as I said, I have over 30 billion in liquid reserves already established.

**Questions for MPP Fedeli:**
Q. Rath: So, Vic?

Yes?

Q. Rath: Doug Ford sort of hung you out to dry yesterday, didn’t he?

With respect?

Q. Rath: Well, he came up with this, let’s - chunk out of the Greenbelt and then when he figured out the public opinion wasn’t really with him, he backed out and he left you for 24 hours having to explain that, oh yeah – this is a great idea.

Well actually, I was very impressed with Leader Doug Ford because he listened to the people. He’s listened to the people –

Q. Rath: He also hung you out to dry. How many times are you going to allow him to do that?

But he’s listened to the people and he, unlike Kathleen Wynne, you know, you got Kathleen Wynne who didn’t listen to the people and ended up selling Hydro One. Whereas you got Doug Ford, who listened to the people and said yeah, all right, the Greenbelt stays as it is. I think that’s a great response.

Q. Tumelty: It got leaked - that’s how this came to life. Otherwise, (inaudible). It got leaked out and it came to life and then people started to ask questions. That’s when people found out about it. Otherwise it would have just been a backroom deal.

I have to tell you, I’m very impressed - Doug Ford would listen to the people of Ontario and he’s come out and said yeah, I hear you. And we’re not doing that.

Q. Walsh: So, why would he do that first? Why would he do that first?

Q. Ferguson: You’re the one who stands here all the time talking about the Liberals making backroom deals and it turns out you guys had one of your own. So how do you explain that?

Well, I can tell you that Doug is listening to the people of province of Ontario –
Q. Ferguson: No, but what about the backroom deal? Explain the backroom deal. Don’t tell us about that he’s listened – tell us about how the backroom deal came up in the first place.

I can tell you that I am very pleased to be part of this team. Doug listened to the people of Ontario and there’ll be no changes to the Greenbelt. And I got to tell you, I’m pretty impressed with the fact that we –

Q. Ferguson: How many other backroom deals are there?

Q. Walsh: Does he have any other backroom deals?
I can tell you that I’m pretty impressed with the fact that he listened to the people. This is unlike Kathleen Wynne –

Q. Ferguson: You didn’t answer the question.

Kathleen Wynne who went ahead and sold Hydro One when the people – the majority of people of Ontario said don’t do that. And she would not listen to the people and ended up selling Hydro One. I got to tell you, I’m very impressed with Doug –

Q. Ferguson: So is there any other backroom deals?

Q. Rushowy: (inaudible) promise to the Greenbelt in the first place?

Well look, I think the fact that Doug Ford has said we’re not going to be touching the Greenbelt – I think that’s where we need to be.

Q. Hains: Have you asked him whether there are any – Have you asked Ford whether there are any other backroom deals?

I can tell you that I’m very, very happy. I’m very impressed with our leader Doug Ford for being able to listen to the people and respond to them – I think you can tell that’s going to be a sign that –

Q. Rath: When did you first find out about this – that he wanted to try to cover up the Greenbelt?

Oh look, Doug Ford has been very clear –

Q. Rath: Well, that’s (inaudible) important question –

Doug Ford has been very clear, that unlike Kathleen Wynne who will not listen to the people of Ontario - Doug’s going to listen to the people and react. And I got to tell you, I’m pretty impressed with that.

Q. Ferguson: But yesterday you were standing here defending it and now today, you're saying that it's brilliant – the change is brilliant. So like, do you guys even know what you're talking about?

I can tell you, I'm very, very impressed with the fact that Doug has listened to the people of Ontario and come out and talked about the Greenbelt when –

Q. Tumelty: Regurgitating the same line over and over again – is that what the people of Ontario want to hear?

Well I can tell you what the people want to hear is that, relief is on its way. And come June 7th – help is on its way.

Q. Jeffords: Don't you think that if Kathleen Wynne had done this, you would call it a flip flop and if Doug has done this now – it's leadership? I mean, isn't that a double standard.

I think the fact that he's listening to the people is truly important. You know, Kathleen Wynne did not listen to the people when she announced after the election that she was going to sell Hydro One. We learned that after the election and people said no, and she still continued to sell Hydro One. Doug Ford is listening to the people –

Q. Walsh: Who are the people – So, Vic, who are the people? What is the barometer then for changing a policy? Who are the people, how many do there need to be for your government – if you form government – to change whatever policy you put forward in the day?

Well, unlike Kathleen Wynne who would not listen to the people and went ahead with the sale of Hydro One, Doug Ford has listened to the people and he's going to be leaving the Greenbelt where it was.

Q. Global: (inaudible) within 24 hours?

Plain and simple – I'm thrilled with the way Doug Ford is reacting to this. Unlike Kathleen Wynne, Doug Ford has listened to the people. We understood that people didn't want any changes to the Greenbelt. We heard it loud and clearly and Doug Ford has agreed. Nothing will change and I'm very impressed with that.

Q. Walsh: On a different note Vic, will you - what's your overall response to FAO report today?

Well, I think it's yet another damning report. It's very clear that the Liberals lied to the people of Ontario. There's no hesitation to say that to you. The Financial Accountability Officer has agreed with the Auditor General that there's a $12-billion deficit, whereas the government said it was six point seven. He also, the Financial Accountability Officer, also said that unlike what the government said – that they balanced – there was actually a three-billion-dollar deficit. So they did not slay the deficit as they said. They did not balance. There was a three-billion-dollar hole. You cannot trust anything that Kathleen Wynne says ever again.

Q. Walsh: If you form government, do you commit to stopping the structural deficit or will you also operate government with a structural deficit?

Doug Ford has said that we won't be able to balance in the first year. There's quite a bit of deficit that we now see, revealed from the FAO and the Auditor General. But through efficiencies, we will get to balance.

Q. Crawley: Are you going to count the five billion bucks of the Fair Hydro Plan and the pension funds stuff in your actual budget? Like you will put that on the negative side of your ledger?

Our leader Doug Ford has been very, very clear that we respect the opinion of the Auditor General. We also respect the opinion of the Financial Accountability Officer. We are going to have a full commission of inquiry to find out what happened and to guide us with ways out of the mess that the Liberals created.

Q. Crawley: But I asked you whether or not you'll count those things on the negative side of the budget?

Well, you're going to see a full accounting from our inquiry, our commission of inquiry, which not only will disclose all of the numbers and how we got there, but also a way out for, for the people of Ontario.

Q. Hains: The Liberals announced this morning, that should they be elected, they will further expand the Greenbelt – will the PCs back that plan?

Well, you can't believe a word that Kathleen Wynne says. We just learned that from the Financial Accountability Officer. She's had 15 years to comment on the Greenbelt and now she chooses, only days before the writ is being dropped – we can't, you can't trust a word that she's saying or believe anything –

Q. Hains: So, you know – are you willing to take the next step and further expand the Greenbelt?

Look, you can't believe that anything that Kathleen Wynne is saying. I'm telling you, 15 years that have created crisis after crisis throughout the province of Ontario. And now that we're within days of a writ being called, all of a sudden they're popping out these policies.

Q: Crawley: (Inaudible) whether you'll expand the Greenbelt without using the words "Kathleen Wynne?"

Q. Ferguson: It's kind of a yes or a no answer, Vic.

Look, you're going to hear more about our plans for the province of Ontario in the coming days, in the coming weeks.

Q. Brule: Will the plan include the Greenbelt or the protection of the environment?

The people of Ontario need relief. You know that we have five priorities and we'll be talking about our five priorities more in the coming days in the coming weeks.

Q: Hains: Why should people trust Doug Ford on the Greenbelt ,who had this backroom deal, more than the Premier?

I can tell you people cannot trust a word that comes out of Kathleen Wynne's mouth.

Q. Hains: Why should we trust Doug Ford more though?
We heard loud and clear from the Auditor General and then the Financial Accountability Officer, both who told us that the government was not truthful with their books. And we learned today not only were they not truthful that there really is a $12-billion deficit. We also learned that $3 billion was the existing deficit. They never were in balance.

Q: Hains: If Doug Ford is cutting backroom deals, why should we trust him more?
You're going to see more from our leader Doug Ford in the coming days, in the coming weeks where we talk about how we're going to bring real relief to the families of Ontario. They are desperate for relief.

Q. Crawley: One of the things that people are complaining about that they want relief from is high gas prices. Other than ending cap and trade, do you guys have any plans to rein in gas prices?

We're going to help families with a long list of our five priorities. In the coming days and in the coming weeks, you're going to see more and more how we're going to bring real relief, whether it's lowering hydro rates by 12 per cent, which has already been announced, where we've got other issues that will be coming up as the days and weeks unfold.

Q. Jeffords: You're talking about how we are going to see all these things in the coming weeks. "More to come, more to come." But when Doug is making policy announcements, they have next to no detail in them whatsoever. How can Ontarians be assured that there is a plan that is substantive, that the Tories are going to offer up in the coming weeks?

Every single day, our leader Doug Ford is out making announcements, including where I'll be in North Bay tomorrow. And I look forward to joining with him side by side, as further announcements are being made. He is in the north making announcements. He talked about resource revenue sharing, something that I can tell you in 2003, as a mayor of the city of North Bay, all of the mayors joined and we started asking the province for relief for municipalities back in 2003, and none of it happened. Here we are 15 years later we're now finally going to see revenue-sharing for municipalities. These things will all be costed and you'll be seeing more in the coming days on our costing.

Q:Hains: Shouldn't we get the costing up front?

You will see it. We are going to be revealing the full plan.

Q. Reeves: Vic, why is Toby Barrett telling the Waterloo Record that Michael Harris was fired under Doug Ford's plan and not what the provincial nominations committee recommended?

I can't speak for Toby and to be quite frank I wasn't involved in that. I'm not aware of any of the issue – I'm not aware of the details of that (inaudible).

Q: Hains: You're quite proud of rooting out the rot. Doesn't that seem like the kind of rot that that deserves further questions?

I can tell you I wasn't involved in that issue.

Q. Reeves: Again the provincial nominations committee is saying they've looked at the offence from 2013. The person who made the complaint had no recommendation that he should be let go. She wasn't seeking that in any way. And yet the PNC is making that claim.

I can't speak for Toby and I don't sit on the PNC.

Q. Reeves: So you're completely OK with the possibility as it's being alleged by a caucus member of yours, that the new party leader is dismissing MPP's when that's not what the party recommended?

I'm not familiar with the actual details of what transpired and I don't sit on the PNC.

Q. Reeves: So, who should we speak to about this?

I don't sit on the PNC.

Q. Haines: Do you have any concerns, as a-

I don't know. I don't know the real issue and I don't see on the PNC.

Q. Ferguson: So when we do ask the party to speak to the PNC we don't really get a response. So can you help us get a response from the PNC and –

I don't sit on the PNC.

Q. Ferguson: No but you're here as – you're interim leader. Can't you help get us a response from the PNC on this?

I would suggest you take it up with the party.

Q. Ferguson: We have and we get nowhere.

I would suggest you take it up with the party.

Q. Ferguson: But you are all about transparency when it's the Liberals. What about when it's PC transparency?

I don't sit on the PNC. And I can tell you that if you need further details you can take it up with the party.

Q. Hains: Do you that the PNC should give us answers?

I don't sit on the PNC and I don't –

Q. Ferguson: Come on, Vic, come on Vic, just cut through all of that crap.

I don't sit on the PNC.

Q. Ferguson: Come on. Come on. You're really going to – you think you can get away with that answer?

I don't sit on the PNC. You should take it up with the party.

Q. Jeffords: What about the broader issue though, Vic? I mean, it looks like a political hit job. Shouldn't that worry every single member of the Tory caucus?

I can't speak for what Toby said and I don't sit on the PNC, so I'm not familiar with the details.

Q. Jeffords: If you had ever made a mistake in the past, no matter how big or how small, someone might pull it out of a red file and use it against you within your own party.

I can't speak for what Toby offered and I don't sit on the PNC. So I don't know the details.

Q. Hains: Have you heard about these red files?

I don't know what you are referring to.

Q. Ferguson: So as interim leader then, where does your authority like go? Does it not go that far?

We have one leader of this party and that's Doug Ford, the party leader as interim leader of Her Majesty's Loyal Opposition. I serve in the legislature.

N.B.: Comments captured are not verbatim quotes

**Prepared by:**
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**From:** Tharani, Alisha (TBS)
**Sent:** May 2, 2018 12:35 PM
**To:** Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Rubin, Jack (TBS); Hadisi, Lawvin (TBS)
**Cc:** @TBS-L-Issues and Media; Ovenden, Erin (TBS)
**Subject:** RE: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

Hi all,

See below for the media event transcript below and attached –

**FAO ASSESSES ONTARIO'S MEDIUM-TERM BUDGET PLAN**
May 2, 2018

**Time / Location:**
10:00 a.m. / Queen's Park Media Studio

**Speakers:**
J. David Wake, Integrity Commissioner and Temporary Financial Accountability Officer; David West, Financial Accountability Office.

**Media Attendance:**
Print – 5
TV – 0
Radio – 0

**Media Outlets:**
Rushowy – Star; Smith Cross – QP Briefing; Reeves – QP Today; Morissette – TFO; Walsh – iPolitics.

**Statements:**
Wake: Good morning. My name is David Wake. I'm the Ontario Integrity Commissioner, and I am also serving as Ontario's Temporary Financial Accountability Officer until Monday. So let me begin by noting that Peter Weltman has been appointed as Ontario's new Financial Accountability Officer commencing on May 7th. I look forward to working with Mr. Weltman as a fellow officer of the Ontario Legislative Assembly, and supporting him as he takes on this important role. Today, the Financial Accountability Office released its biannual economic and Budget outlook providing a forecast for the economy and an assessment of Ontario's fiscal outlook. The report incorporates the latest economic data as well as updated fiscal information from the 2018 Ontario Budget. Last week, the office of the Auditor General released its review of the government's pre-election report. The Auditor General's review concluded that the pre-election report is not a reasonable presentation of the province's finances because it significantly understates the actual level of government expenditures. After adjusting for these understatements, the Auditor General estimates that the Budget deficit would average approximately $12 billion each year over the next three years. Today's FAO report takes a different analytical approach than the Auditor General, but arrives at the same forecast for budget deficits of approximately $12 billion a year over the next three years. While the FAO's deficit projections are consistent with those of the Auditor General, the FAO's report also provides several other important insights. So I'll now turn it over to David West, the FAO's chief economist, to expand on some of the report's key results.

West: Thank you Commissioner Wake. So I'd like to focus on three key conclusions from our analysis. So first, the FAO projects that the Ontario Budget deficit will increase sharply to almost $12 billion this fiscal year, up from about $4 billion last year in 2017. The increase in this year's deficit reflects higher spending from the 2018 Budget combined with only a weak gain in revenue. But importantly, based on the FAO's analysis, the Ontario Budget was already in deficit prior to the introduction of the Budget; specifically, before the introduction of the 2018 Budget, Ontario was facing a deficit of approximately $8 billion this fiscal year largely due to slower revenue growth. The significant spending initiatives included in the Budget increases existing deficit by an additional $4 billion.

A second key insight from our report relates to the reasonableness of the government's fiscal recovery plan which proposes to eliminate this deficit by 2024. The government's plan provides few policy specifics but assumes a dramatic cut in annual spending growth from about 4 per cent to just 2 per cent beginning in 2021. Severely restraining the growth in spending below population growth and inflation could lead to a balanced budget by 2025. However, the government's plan implies that the government would have to find about $15 billion in spending reductions by 2025, equivalent to about 8 per cent of program spending in that year. Restraining spending to this extent would prove to be challenging.

Finally, the 2018 Budget postpones deficit recovery, leading to the accumulation of additional debt just as the demographic pressures on the budget will intensify. By 2020, Ontario's net debt will increase by nearly $70 billion, reaching almost $400 billion. This additional debt will raise the province's debt-to-GDP ratio to 42 per cent by 2020, up from about 39 per cent last year. The 2018 Budget did not acknowledge the province's – the government's previous target of reducing the provincial debt-to-GDP ratio to 35 per cent by 2023. But even with the significant spending restraints assumed in the government's plan, the province will miss this prudent debt-to-GDP target by a wide margin. The government's fiscal plan shifts the burden of eliminating Ontario's deficits from current taxpayers to younger Ontarians. The additional debt will also leave the province with less flexibility to respond to future crises, including recessions. Alternate fiscal plans to address Ontario's deficit and debt would also involve difficult trade-offs. Raising revenue leaves less money to households to spend and businesses to invest, and would contribute to the moderating growth of economic – of economic growth. However, achieving continued spending restraint may be more difficult in the coming years. The government has been limiting the growth of spending since 2010 and many public services are currently facing budget pressures. Thank you. The Commissioner and I would be happy to take questions.

**Media Questions:**
Q. Walsh: So you just said that the 35 per-cent target was prudent. Why do you say that? Like, and now you then saying that 42.7 is imprudent.

West: So we released the report, the long-term budget outlook report, last fall in October, and in that report we looked at the government's debt-to-GDP targets in some detail actually. They – the government committed to lowering the debt-to-GDP ratio to 27 per cent by 2029 and set an interim target in the 2017 Budget of lowering it to 35 per cent by 2023. We tested those – we tested those debt-to-GDP ratios in our long-term report and found that actually achieving a 27-per-cent debt-to-GDP target in '29 would actually be very prudent because the government would allow – it would allow the government and province to absorb the coming – the coming spending pressures that will come from aging population and increased health spending in the 2020s and 2030s. So we kind of echoed some of those results in this report.

Q. Rushowy: What does this mean for younger Ontarians? You're saying this is being transferred from current taxpayers to them.

West: Well there's a $12-billion deficit and, you know, eventually that (inaudible) add to debt and eventually somebody's going to have to pay interest on that debt at a minimum and pay down the debt eventually I suppose. And that will be shifted to future taxpayers from current taxpayers. And so that's younger Ontarians and away from current taxpayers, which are dominated by Baby Boomers. We addressed that in our long-term report last fall.

Q. Smith Cross: (inaudible) how far off is that problem coming? How many years from now or (inaudible)?

West: It comes of course. It doesn't come in one year per se, but certainly in the late 2020s the pressures on the budget start to increase. I mean, the Boomers are between – I think – 50 and 70 years old in 2020, and you know, are going to need knee replacements by 2030 and that will add to this pressure on health spending.

Q. Walsh: Can you just talk about more about how much more austerity would be needed to get to balance by – I can't remember – by 2025-26 compared to what they had done in the last eight years from 2008 to now?

West: So from 2010 to 2017, program spending grew by 2.3 per cent per year on average. And in our report we, they – and in – well in the government's projections, they are assuming that they will reduce program spending to 2.1 per cent. So slightly slower than was achieved from, since 2010. That's below the rate of population growth which is roughly 1 per cent below CPI, or below the rate of population growth and CPI and the impact of aging. When you put all those three things together we think program spending needs to grow at about 3.5 per cent which is what we call our status quo projection. So that reflects-- accommodates for increasing population, accommodates for price inflation and accommodates for the impact of ageing. And so 3.5 per cent is our status quo and the difference between spending under that status quo projection and the government's spending restraint projection is $15 billion by 2025.

Q. Walsh: So how doable or difficult is that?

West: I mean the government has been able to restrain. In our report, on page 29 of our report, we actually point to some historical periods actually of the program spending restraint. So from '92 to 2000 the program spending grew by just 1.4 per cent, but then it was a bounce back period of almost 7 per cent in the early 2000s, falling in the period since the recession, 2008-2009 recession, problem spending has been growing at about 2.3 per cent. So it's achievable, it's just challenging and it's certainly challenging to achieve that in a sustainable way which is a point we make in our report. It's one thing to limit, freeze wages, but eventually there's a bounce back from a frozen wage.

Q. Walsh: Is your point essentially that we're in a structural deficit; that to maintain the programs that have been promised, it simply doesn't add up between the revenues? So either something needs to be cut-- like is your point essentially that we're actually not in a sustainable position?

West: Yes. Yes. I mean we make the point we use the word structural deficit and there's a fundamental imbalance between revenues and spending. The 2018 Budget just added to that imbalance and the, you know, the conclusion of that fundamental imbalance is that economic growth alone will not be sufficient to allow the government to eliminate the deficit.

Q. Smith Cross: [Inaudible] the difference between status quo and the government's plan require cuts? Like it's a simple word, but people understand it. Are cuts required?

West: One or the other they'll have to restrain growth in spending and it's equivalent to about $15 billion; 8 per cent of spending by the time, by 2025. So, you know, cut-- you know if you let it to grow too much you're going to have to cut back to get to a balance or you just have to restrain it before you get there. One or the other it's about $15 billion.

Q. Reeves: Does your office ever offer suggestions for how government might be able to accomplish that or is your role, as you see it, just to say this is what needs to happen in order to achieve that?

Wake: No, it's not the FAO's role to advance foreign policy recommendations. We just analyze those that are made by the government for the benefit of the legislators and the public.

Q. Walsh: And so do you agree that the Auditor General's assessment that the numbers are not reasonable?

West: Yes. We've adopted the Auditor General's accounting in our report and we agree that the government's fiscal presentation accounting presentation is understating the full actual cost of the Fair Hydro Plan and the full expenses of those two public sector pensions.

Q. Smith Cross: [Inaudible] page one you have highlighted what are the new spending measures from the 2018 Budget. I'm not sure if you can answer this, but are those things that could be cancelled by a new government at this point, or by any government at this point?

West: I think all government, all future governments have lots of flexibility in the plan to do as they wish. Sure. I mean some of the spending will probably be built in. It will be difficult but lots of their new programs-- a lot of it are new programs that you know can be you know can be reversed. The government, new government, current government could find restraint, you know. So yes, there's $3.7 billion in new spending as a result of this budget which contributes to that $12-billion deficit.

Q. Reeves: This might be political question so answer it as you wish. The Tories have mentioned often about when they, if they form the next government of being able to go through, line by line, through ministries in order to be able to find savings that way. Do you imagine that that kind of line item approach to ministries to find savings would yield the kind of results that they're talking about? Does that seem feasible to you?

West: I think that-- I, go ahead--

Wake: Well you're right it is a political question but I think we--

West: I mean it really isn't the role of our office to go on a line by line kind of basis through spending. We provide sort of macro, broad, fiscal analysis for the benefit of MPPs and for the legislature, so we don't look at it. Certainly, as I've said, there have been periods we've shown historically where you can restrain the program's spending. I think the question we raise in this report is; how sustainable is that? You know, it's one thing to freeze wages and then eventually have to let off the pedal and it's another thing to, you know, sort of transform public services in a way that's sustainable.

Q. Rushowy: [Inaudible] you said it was different than the way the Auditor General [Inaudible]

West: So we arrived at the same projections of $12-billion deficits. She looked at each of the government's line items, revenues and spending, and looked at them one by one and determined whether or not they were reasonable and then ultimately found that they were reasonable with the very important exception of the two accounting differences. So her office, or the auditor general's office, took the $6.7-billion deficit the government projected in their budget and added $5 billion in accounting adjustments to get to an $11.7-billion deficit. We provide an independent fiscal forecast based on an independent economic forecast, go through each of the revenue lines and we also adopt the government's own program spending given the discretion the government has over its spending and come up with our own bottom line number. It's a bottom up approach so to speak, and we come out with an $11.8 deficit. That of course does include $5 billion in accounting adjustments which is to say that we agree the auditor general that the government's projections are reasonable. I think the message of a report though is that they-- there was already an existing deficit before the introduction of the 2018 Budget, even on the government's accounting basis.

Q. Walsh: I'm sorry, so part of it's not reasonable, but part of it is reasonable. So while they're spending and—

West: We don't come to a conclusion about reasonable or not. Reasonable we just provide our own forecast. The auditor general concluded that it was not reasonable because they--

Q. Walsh: So you'd say you agree with it?

West: We agree with that the $5 billion in accounting adjustments should be included to provide an actual true representation of government spending.

N.B.: Comments captured are not verbatim quotes

**Prepared by:**
Jonathan Colford, Senior Issues Analyst
Jeffrey Stinson, Senior Media Analyst

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**From:** Tharani, Alisha (TBS)
**Sent:** May 2, 2018 11:14 AM
**To:** Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Rubin, Jack (TBS); Hadisi, Lawvin (TBS)
**Cc:** @TBS-L-Issues and Media; Ovenden, Erin (TBS)
**Subject:** RE: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

Hi all,

See below for a summary of the FAO's media event, from our colleagues at MOF:

**FAO Spring 2018 Economic and Budget Outlook: Assessing Ontario's Medium-term Budget Plan – Media Studio**

Attendees : The Honourable J. David Wake *(Ontario's Temporary Financial Accountability Officer)* and David West *(FAO Chief Economist).*

Media : Jessica Smith Cross (QP Briefing), Marieke Walsh (iPolitics)

Summary :

**Three Key Conclusions**

1. The FAO projects that Ontario's deficit will increase sharply to $12B this fiscal year, up from about $4B last year.

   The increase in this year's deficit reflects higher spending from the 2018 budget, combined with only a weak gain in revenue.

   Based on the FAO's analysis, the Ontario budget was already in deficit prior to the introduction of the 2018 budget.

   Before the introduction of the 2018 budget Ontario was facing a deficit of approximately $8B this fiscal year, largely due to slower revenue growth.

   The significant spending initiatives included in the budget increases the existing deficit by an additional $4B.

2. The reasonableness of the government's fiscal recovery plan which proposes to eliminate the deficit by the year 2024.

   The government's plan provides few policy specifics but assumes dramatic cut in annual spending growth from about 4% to just 2% beginning in the year 2021.

   Severely restraining the growth in spending below population growth and inflation could lead to a balanced budget by 2025, however the government's plan implies that the government would have to find about $15B in spending reductions by 2025, equivalent to about 8% of program spending.

Restraining spending to this extent would prove to be challenging.

3. The 2018 Budget postpones deficit recovery leading to the accumulation of additional debt just as the demographic pressures on the budget will intensify. By 2020, Ontario's net debt will increase by nearly $70B reaching almost $400B.

   This additional debt will raise the provinces debt to GDP ratio to 42% by 2020, up from about 39% last year.

   But the FAO projects that the Ontario government will miss this debt-to-GDP target by a wide margin. The Ontario government's plan shifts the burden of eliminating Ontario's deficits from current tax payers to younger Ontarians.

   The additional debt will also leave the province with less flexibility to respond to future crisis, including recessions.

   The government has been limiting budget growth since 2010 and many public services are currently facing budget pressures.

Q&A

**Q1** : **You said 35% debt-to-GDP ratio is prudent but 42.7% is not?**

**A1** : The government committed to lowering the debt-to-GDP ratio to 27% by 2029 and set an interim target in the 2017 budget of lowering the ratio to 35% by 2023. We tested those debt-to-GDP ratios in our long term interim report and found that actually achieving at 27% by 2029 would actually allow the government to absorb the coming spending pressures that will come from aging population and increased health spending in the 2020's and the 2030's.

**Q2** : **What does this mean for younger Ontarians? If you say this is being transferred from current taxpayers to them?**

**A2** : There is a $12B deficit and eventually that will add to debt and eventually someone is going to have to pay interest on that debt at a minimum and pay down the debt eventually and this will be shifted to future tax payers.

**Q3** : **How far off is that problem from coming? How many years from now?**

**A3** : It does not come in one year. But by the late 2020's the pressures on the budget start to increase. The boomers are between 50 and 70 years old in 2020. This will add pressure on health spending.

**Q4** : **How much more austerity would be needed to get to balance by 2025, compared to what they have done in the last 8 years?**

**A4** : So, from 2010 to 2017 program spending grew by 2.3% per year on average. In the government's projections, they are assuming they will reduce program spending to 2.1% which is slightly slower than was achieved since 2010. That's below the rate of population growth which is roughly 1% and CPI (inflation) and the impact of aging. When you put all those three things together we think program spending needs to growth at about 3.5% which would be status quo projection. This accommodates for increasing population, price inflation, and aging.

The difference between the 3.5% status quo spending and the government's 2.1% annual growth projection is about $15B.

**Q5** : **So, how doable or difficult is that?**

**A5** : From 1992 to 2000 program spending grew by just 1.4%, but then it was just a bounce back period of almost 7% in the early 2000's, and following the period since the recession, program spending has been growing almost 2.3%. So, it's achievable it's just challenging and it is certainly challenging to achieve it in a sustainable way. It is one thing to freeze wages but eventually there is a bounce back from a frozen wage.

**Q6** : Is it your point that we are not in a sustainable position?

**A6** : Yes. There is a fundamental imbalance between revenues and spending and the 2018 budget just added to that imbalance. Economic growth alone will not be sufficient to allow the government to eliminate the deficit.

**Note that questions / answers are not verbatim but as close as possible. A complete transcript will be available later in the day.**

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**From:** Tharani, Alisha (TBS)
**Sent:** May 2, 2018 10:37 AM
**To:** Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Rubin, Jack (TBS); Hadisi, Lawvin (TBS)
**Cc:** @TBS-L-Issues and Media; Ovenden, Erin (TBS)
**Subject:** RE: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

Hi all,

See below for initial social media coverage (Twitter) linking the FAO's report to the AG's accounting treatment of the Fair Hydro Plan and pension asset accounting.

Note that the FAO (J. David Wake) began the media event outlining the Auditor General's conclusion that the Pre-Election Report is not a reasonable presentation of Ontario's finances; he then explained that the FAO report takes a different analytical approach, but arrives at the same forecast for Ontario's fiscal situation.

The FAO report – summary (pasted below) begins with the same overview: "In 2017-18, the FAO estimates that Ontario will record a budget deficit of $3.6 billion, consistent with the Auditor General's recommended accounting treatment for net pension assets and the Fair Hydro Plan."

As mentioned, our next update will be to circulate MOF's summary of coverage once available.

Best,

Alisha

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**Robert Benzie**
@robertbenzie
. @InfoFAO echoes @OntarioAuditor on provincial deficit, warning it is close to $12B. FAO blasts same accounting as auditor. But @OntLiberal and @OntarioPCParty hydro plans use the same accounting the watchdogs criticize. @OntarioNDP do not. #onpoli
10:07am · 2 May 2018

**David Reevely**
@davidreevely
Ontario's financial accountability office has a report on the province's medium-term economic and fiscal outlook. It's (1) not great, and (2) not really at odds with the Liberal government's predictions. But the whole thing is confused by the fight with the AG over accounting.
10:08am · 2 May 2018
**Victor Fedeli**
@VictorFedeli
@InfoFAO agrees with @ OntarioAuditor that government books are Not Reasonable. Liberals didn't disclose they already had a $3-billion deficit for 2018-19 -- they had a hidden deficit!
10:11am · 2 May 2018

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**Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan**

**Summary**

*FAO Projects Sharp Increase in Budget Deficit*

In 2017-18, the FAO estimates that Ontario will record a budget deficit of $3.6 billion, consistent with the Auditor General's recommended accounting treatment for net pension assets and the Fair Hydro Plan.

For 2018-19, the FAO projects that Ontario's budget deficit will increase sharply to $11.8 billion, the result of higher spending from the 2018 Budget combined with only a weak gain in revenue. Going forward, the FAO projects a continued deterioration in Ontario's budget, with the deficit reaching $12.7 billion by 2020-21.

*Ontario Budget Balance Deteriorates Significantly*

Over the past four years, the Ontario economy has shown significant strength, primarily due to strong gains in household spending and residential investment. Most economic forecasters, including the FAO, expect this robust pace of growth will moderate somewhat over the next few years as rising interest rates, combined with high levels of household debt, slow the growth of household spending. The slower pace of economic growth results in more modest growth in Ontario's revenues, which in turn, contributes to Ontario's worsening budget deficit.

Importantly, the FAO estimates that Ontario was facing an $8.1 billion deficit in 2018-19 prior to the introduction of the 2018 Budget.

In this context, the government introduced the 2018 Budget which included a broad range of new public spending initiatives. While many of these new programs would provide significant social and economic benefits for Ontarians, the government has not raised adequate revenue to pay for them, adding to continued deficits over the outlook.

Large, on-going deficits will contribute to a steady increase in Ontario's debt over the next three years. The FAO projects that Ontario's net debt will increase by almost $70 billion, reaching $394 billion in 2020-21, pushing the net debt-to-GDP ratio to 42 per cent, well above today's ratio of 39 per cent.

To address the budget deficit, the government introduced a 'fiscal recovery plan' which projects a balanced budget by 2024-25, based on restricting the growth in program spending. The fiscal recovery plan provides few policy specifics, but assumes that the government will dramatically cut spending growth from an average of 4.2 per cent over the next three years, to just 2.1 per cent from 2020-21 to 2025-26.

Based on the FAO's analysis, severely restraining the growth in program spending, below the pace of population growth and price inflation, could lead to a balanced budget by 2025-26. However, this plan implies that the Province would have to lower spending by approximately $15 billion, or eight per cent, by 2025-26.

Even with the significant spending restraint planned by the government in the 2020s, Ontario's debt burden would remain elevated, and the Province would miss its 2023-24 net debt-to-GDP target by a wide margin.

*The Province Will Not Meet its 2023-24 Net Debt-to-GDP Target*

The 2018 Budget postpones deficit recovery, leading to the accumulation of additional debt into the 2020s when demographic pressures on the budget will intensify. This additional debt will increase the challenge of stabilizing Ontario's public finances, shift the burden from the baby boom generation to younger Ontarians, and would leave future governments with less flexibility to respond to future crises, including recessions.

Alternate fiscal plans that address the deficit would also involve difficult trade-offs. Raising revenue leaves less money for households to spend and businesses to invest, and would contribute to the already moderating pace of economic growth.

However, achieving continued spending restraint may be more difficult in the coming years. The government has been limiting spending growth since 2010, and many public services are currently facing budget pressures.

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**From:** Tharani, Alisha (TBS)
**Sent:** May 2, 2018 10:02 AM
**To:** Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Rubin, Jack (TBS); Hadisi, Lawvin (TBS)
**Cc:** @TBS-L-Issues and Media; Ovenden, Erin (TBS)
**Subject:** FW: FAO NEWS ALERT: FAO releases Economic and Budget Outlook - Assessing Ontario's Medium-term Budget Plan

FAO | Financial Accountability Office of Ontario
2 Bloor Street West |Suite 900 | Toronto, Ontario |M4W 3E2

May 2, 2018

*[La version française suit le texte anglais.]*

## FAO RELEASES ECONOMIC AND BUDGET OUTLOOK – ASSESSING ONTARIO'S MEDIUM-TERM BU

The Financial Accountability Office of Ontario (FAO) has just released an Economic and Budget Outlook – Assessing Ontario's Medium-ter

This report provides the FAO's assessment of the province's medium-term economic performance and fiscal position, and the reasonableness ar recovery plan.

Click here to read the report.

LIVE webcasting of the press conference will be available at 10:00 a.m. here .

**About the FAO**
Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the economy and related matters important to the Legislative Assembly of Ontario. Visit our website at http://www.fao-on.org/en/ and follow us on Twi

For further information, please contact:
**Kismet Baun I (416) 254-9232 I kbaun@fao-on.org I fao-on.org**

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2 mai 2018

## LE BRF PUBLIE SON RAPPORT SUR PERSPECTIVES ÉCONOMIQUES ET BUDGÉTAIRES – ÉVALUATION DU PLAN BUDGÉTAIR

Le Bureau de la responsabilité financière de l'Ontario (BRF) vient de publier un rapport intitulé Perspectives économiques et budgétaires – Év terme de l'Ontario .

Dans ce rapport, le BRF analyse la conjoncture économique et budgétaire à moyen terme pour la province et évalue le caractère raisonnable du et les risques qui y sont associés.

Cliquer ici pour lire le rapport.

Vous pourrez écouter la conférence de presse EN DIRECT sur le Web ici à compter de 10 h.

**À propos du BRF**
Établi en vertu de la *Loi de 2013 sur le directeur de la responsabilité financière,* le Bureau de la responsabilité financière (BRF) a pour mandat de fournir ur financière de la province, des tendances de l'économie provinciale et de toute autre question d'intérêt pour l'Assemblée législative de l'Ontario. Vi on.org/fr/ et suivez-nous sur Twitter à https://twitter.com/InfoFAO .

Pour en savoir plus, veuillez communiquer avec :
**Kismet Baun I 416 254-9232 I kbaun@fao-on.org I fao-on.org/fr/**