Krasic, Aida (MOF)

From: Thompson, Scott (MOF)
Sent: February 8, 2017 6:56 AM
To: Orsini, Steve (CAB); Angus, Helen (TBS)
Cc: Bevan, Andrew (OPO); Rowe, Mary (OPO); Davidson, Steven (CAB); Bromm, William (CAB); Kwamena, Boafoa (CAB); Schuurman, Tim (MOF)
Subject: Re: Briefing FAO on Pension Asset Panel Report

Thanks Steve. Yes we're on it. Inviting them in to read ahead of release.
Thanks
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB)
Sent: Wednesday, February 8, 2017 12:10 AM
To: Angus, Helen (TBS); Thompson, Scott (MOF)
Cc: Bevan, Andrew (OPO); Rowe, Mary (OPO); Davidson, Steven (CAB); Bromm, William (CAB); Kwamena, Boafoa (CAB)
Subject: Briefing FAO on Pension Asset Panel Report

I think it would be a good idea for TBS and Finance to brief or share an embargoed copy of the Panel report with the FAO.

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'More flexibility' to balance budget if pension panel sides with government, FAO says

07.02.2017 Sabrina Nanji

Should the panel studying an accounting clash with the auditor general conclude that billions of dollars worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised, the Financial Accountability Office (FAO) says.

The spat came to a head late last year when the government sought an independent review to help clarify a measure that adds or subtracts $10.7 billion to the province's net debt and $1.5 billion to the 2015-16 deficit, depending on your vantage point. In auditor general **Bonnie Lysyk**'s opinion, two jointly-sponsored pension plans (the Ontario Teachers' Pension and the Ontario Public Service Employees' Union Plans) should not be included on the financial statements, as the government has done for years, because the funds aren't accessible.

Multiple sources reportedly told *Toronto Star* columnist **Martin Regg Cohn** that the Pension Asset Expert Advisory Panel has made its decision and sided with the government.

David West, the FAO's chief economist, said he had not heard about any conclusions from the panel, but noted that if it has decided to count the pension assets, it gives the government more breathing room to achieve balance. He reiterated that the FAO would defer to whatever final resolution the government, auditor general and panel come to (assuming a consensus is reached).

"If it turns out that the government can indeed claim the assets of the (pension plan), then this increased expense wouldn't appear on their books, so the deficit would approve by those amounts," West said.

The FAO's economic outlook last fall proffered two economic scenarios, with and without the pension assets. With the auditor general's opinion, the deficit for 2016-17 was an estimated $5.2 billion and $2.6 billion in 2017-18.

The government's Fall Economic Statement came shortly after and projected the deficit for 2016-17 at $4.3 billion. The impact of the auditor general's opinion amounts to $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19, it added. In spite of this, the Liberals say they'll balance the budget in 2017-18 and 2018-19.

"(Our) conclusions are pretty much the same," West said. "Based on our projections, we would anticipate the government having a small deficit in 17-18, but as we acknowledged, there's enough flexibility in the government's plans and even more flexibility is available to them when the number is smaller...They could schedule the timing of asset sales or restrain program spending on a temporary basis in the year. So, they are even more likely to achieve a balance in 17-18 if they don't have to claim the $2.2 billion in additional expense that they would have under the auditor general's recommended accounting treatment."

West declined to weigh in on whether he thought the pension assets should be counted on the books, or if he thought the auditor general is being political or the government undermining. He did concede that the accounting clash has not made the job of the financial accountability office easier.

Last fall, the government tabled the public accounts later than expected with the auditor's opinion, despite disagreeing with it, which required a temporary regulation. (The current public accounts for the last fiscal year show an annual deficit of $5 billion for 2015-16, whereas the government's numbers would have shown $3.5 billion, and a net debt of $305.2 billion, compared with $294.5 billion, per the government's rubric.)

Because the panel's recommendation isn't public yet, Lysyk declined to confirm or comment directly.

"I really don't have any comment. I guess I just want to respect the process and I think that process is there is no report that's been released," Lysyk told *QP Briefing* Tuesday.

However, Lysyk's comments last fall seemed to suggest she was digging in her heels and would not be swayed from her original opinion.
"I as well have external advice that I seek prior to addressing a significant issue, so I'm really confident that we've done our homework and that we have it right," Lysyk said at Queen's Park in October. "I have no vested interest in the outcome of this other than making sure it's right in accordance with public sector accounting standards ... at this point I'm pretty confident that we got it right."

Premier **Kathleen Wynne** gave little away when pressed at an unrelated news conference Tuesday morning, pointing out that the government's panel were experts with "vast experience in this area" and proceeded to name each expert and their qualifications. ("I anticipated this question," Wynne quipped after pulling prepared notes from the stack in front of her.)

"What we have to do as government is get the best advice that we can ... We asked an objective independent panel to weigh in on this and give us advice and we're going to take that independent advice very, very seriously," Wynne said.

Panel members include **Murray Gold**, **Uros Karadzic**, and **Paul Martin** (not the former prime minister), who were each paid a $1,900 per diem, and the chair, former head of the Canadian Actuarial Standards Oversight Council, **Tricia O'Malley,** who earned $2,000 a day.

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Krasic, Aida (MOF)

From: Thompson, Scott (MOF)
Sent: January 6, 2017 4:42 PM
To: Orsini, Steve (CAB)
Subject: Re: SOUSA: BUDGET 'HAS TO BE' BALANCED IN 2017-18

Indeed we should.....

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB)
Sent: Friday, January 6, 2017 4:37 PM
To: Thompson, Scott (MOF); Angus, Helen (MIT); Davidson, Steven (CAB); Betzner, Lynn (CAB); Bromm, William (CAB); Kwamena, Boafoa (CAB)
Subject: SOUSA: BUDGET 'HAS TO BE' BALANCED IN 2017-18

LET'S DISCUSS THIS ON MONDAY.

SOUSA: BUDGET 'HAS TO BE' BALANCED IN 2017-18

By: Geoff Zochodne

Despite the string of deficits the federal government is projected to run now and well into the future, provincial Finance Minister Charles Sousa says Ontario's days of doing the same will soon be numbered.

The province is currently forecast to run a deficit of $4.3 billion in 2016–17 , but Premier Kathleen Wynne and her Liberal government have settled on 2017-18 (which starts April 1) as the year they'll balance the budget. Sousa says they're sticking to that.

"The budget's going to be balanced next year and the year after that," he said Friday at Queen's Park. "It has to be, because it's something that we've been working towards coming to fruition."

The Liberal government in Ottawa, meanwhile, has said it will run significant deficits in the coming years. Finance Canada even released figures on Thursday that project the federal government will run deficits into the 2050s.

But Sousa says Ontario ran its deficits to stimulate the economy in the wake of the pounding it took during the 2008-09 recession. He's also predicting a balanced budget this year and in 2018-19 over the warnings of the legislature's Financial Accountability Office, which said in November that, barring more steps being taken, the province's deficit would be $2.6 billion in 2017-18. That projection included the $1-billion annual cost of providing an eight-per-cent hydro bill rebate to Ontarians, an initiative that started this month. It also covers an accounting change with regards to certain public-sector pension plans, which increased the estimated deficit figures by $1.5 billion.

Even with that "reinterpretation" of pension plan assets, Sousa said the budget will be balanced. Now that the province's economic growth is projected to be among the strongest in Canada – the Conference Board of Canada said in December that Ontario's economy was expected to grow by more than 3 per cent in 2016 – the finance minister says the time is nigh to stop racking up red ink.

Statistics Canada reported Friday that Ontario added approximately 9,100 jobs in December, but that the unemployment rate rose to 6.4 per cent compared to November. The increase was due to a slight rise in the number of people looking for work.

Sousa, though, noted this marks the 20th consecutive month Ontario's unemployment rate was below the national average; Canada's joblessness rate was 6.9 per cent in December.

"I think it's important that when then economy slowed down and when we suffered through that recession, the biggest in recent history, it was important for us to invest," Sousa told reporters. "But we've got through that. What's enabling us to balance the books is growing our economy, controlling our spending – we've become the lowest-cost government anywhere in Canada because of the measures that we've taken – and we've stimulated growth because of infrastructure spending and targeted initiatives."

NDP economic development critic Catherine Fife, citing the FAO's work, said the Liberal government was heading for a "false" balanced budget. The fiscal watchdog has cautioned that the Liberal government's plan to sell off up to 60 per cent of Hydro One would result in the province's books being worse off in the long-run than it would have been without the stock offerings.

"It may look balanced for a day, but it's not truly going to be balanced," Fife said of the budget.

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