RE: fiscal trends SO

From: "McMichael, Rhonda (CAB)" <rhonda.mcmichael@ontario.ca>
To: "Greenberg, Martha (CAB)" <martha.greenberg@ontario.ca>
Cc: "Astill, Michelle (CAB)" <michelle.astill@ontario.ca>
Date: Mon, 28 May 2018 13:05:30 -0400

We are good with these sections. Thanks!

From: McMichael, Rhonda (CAB)
Sent: May 28, 2018 12:23 PM
To: Greenberg, Martha (CAB) <Martha.Greenberg@ontario.ca>
Cc: Astill, Michelle (CAB) <Michelle.Astill@ontario.ca>
Subject: RE: fiscal trends SO

Sorry this section too:

Recently, the Auditor General reiterated two issues with the province's 2018 Pre-Election Report, which had first been raised in the 2016-17 Public Accounts:

- In fall 2016, there was a dispute between the province's professional accounting staff and the Auditor General's Office on the interpretation of public sector accounting standards with respect to the recognition of a proportionate share of assets of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP). An independent advisory panel concluded that both the OTPP and OPSEUPP should continue to be recognized as an asset in the province's financial statements, which the government accepted. However, the Auditor General has continued to provide a qualified opinion of the province's books based on this interpretation.

- In the 2016–17 Public Accounts, the Auditor General also raised concerns with respect to the proposed accounting presentation of the province's plan to reduce electricity costs. The province issues its financial statements in accordance with generally accepted accounting principles for government as issued by the Public Sector Accounting Board of CPA Canada. With the support of external advisors, it has been determined that the accounting presentation for the province's plan to reduce electricity costs, under the guidance provided for rate regulated entities under U.S. GAAP, is appropriate under Canadian public sector accounting standards (PSAS). However, the Auditor General does not agree with the assessment that rate regulated accounting is allowed under PSAS, and has indicated that the application of rate regulated accounting will result in a material misstatement of the annual surplus/deficit and net debt in the province's financial statements. As a result, the Auditor General has indicated an audit qualification is highly likely on this matter.

From: Greenberg, Martha (CAB)
Sent: May 28, 2018 12:23 PM
To: McMichael, Rhonda (CAB) <Rhonda.McMichael@ontario.ca>
Cc: Astill, Michelle (CAB) <Michelle.Astill@ontario.ca>
Subject: RE: fiscal trends SO

I don't have any issues with it. my only question would be whether we need the last part about the PBO, it is more blunt and not sure adds that much as we have the AG and FAO already and does seem to be a bit sharper?? It is public though so but just a thought.

From: McMichael, Rhonda (CAB)
Sent: May-28-18 12:20 PM

To: Greenberg, Martha (CAB)
Cc: Astill, Michelle (CAB)
Subject: fiscal trends SO

Hi there – do you have any issues with including/keeping this as part of the overview? I think it's written likely as neutrally as possible? Thanks v much, Rhonda

External Reviewers Have Raised Concerns about Ontario's Long-Term Fiscal Sustainability

The Auditor General has noted that Ontario's fiscal plan will become less sustainable over the coming years, as a result of high debt and potentially increasing interest on debt charges, which the Auditor General contends will hinder the province's ability to be flexible and respond to changing economic circumstances.

Similarly, the FAO noted in its 2017 Long-Term Budget Outlook Report that "if current trends in fiscal policies continue, demographic changes will combine to lower tax revenue growth and raise spending, leading to large and rising budget deficits." The FAO predicts that demographic pressures on the budget will intensify in the mid-2020s. The FAO cautions that higher debt, and thus higher interest on debt payments, could leave the province with less fiscal flexibility, and decrease the province's ability to use deficit spending to respond to unforeseen events, including recessions. The FAO recommends permanently raising revenue or lowering spending by at least 0.75 per cent of GDP, beginning in 2018–19, to avoid shifting the burden of stabilizing the province's finances to younger Ontarians.

The Parliamentary Budget Office's (PBO) 2017 Fiscal Sustainability Report includes a section on Ontario's fiscal sustainability. The PBO's assessment concludes that:

- Ontario's current fiscal policy is not sustainable over the long term
- Achieving fiscal sustainability would require policy actions, such as permanent tax increases or spending reductions amounting to 0.4 per cent of provincial GDP ($3.5 billion in current dollars)
- Health care spending is the key fiscal pressure.