

SCOPA QAs – Oct 5, 2016

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be \$296.1 billion, \$2.8 billion lower than forecasted in the *2015 Budget*. Net debt was \$284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing \$32.1 billion. Long-term borrowing for 2016–17 is forecast to be \$24.4 billion when factoring in \$2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed \$12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued \$59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

- A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

- A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years, resulting in borrowings and accumulated deficits that are \$ 25 billion lower that they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

- A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992-93 to 2005-06, and is forecast to remain lower through the period to balance in 2017-18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued \$59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. **The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.**

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about \$70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

- A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about \$70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act*,

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save \$21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save \$140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under \$5 billion as at March 31, 2016, from \$20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orenacsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

- A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations." When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at \$250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of \$1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

- A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, Ontario's accumulated deficit is \$30 billion lower than it otherwise would have been.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

- A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than \$137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about \$160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by \$1.43 in the short term and up to \$3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

- A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately \$45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

- A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over \$1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

- A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest**. And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).
- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.
- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.
- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.
- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.
- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.
- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.
- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992-93 to 2005-06, and is forecast to remain lower through the period to balance in 2017-18.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than \$137 billion over the next 10 years, or about \$160 billion over 12 years, starting in 2014-15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

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WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?