Media Questions and Answers

Key Messages:

- I would like to thank the Financial Accountability Officer for his report that assesses Ontario's 2017 spring economic and fiscal outlook.
- As outlined in the 2017 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.

Media Qs and As:

Specific Pension Asset Expert Advisory Panel Questions:

Q1. Will you be providing the Auditor General proof "in writing" from the unions that they are okay with the government booking the surpluses as a public asset for accounting purposes?

No. We don't think this is necessary.

To clarify, the government disagrees with the Auditor General's interpretation of the accounting standards related to the province's jointly sponsored pension plans.

According to the Auditor General's interpretation, in order for the government to report the assets on the books, the government and the co-sponsors for the jointly sponsored plans (OTPP and OPSEUPP) would have to have signed agreements with the government stipulating in detail how the surpluses were to be used to reduce future contributions. This is not a requirement under the accounting standards, as the expert advisory panel has confirmed.

Furthermore, accounting standards should not drive government policy decisions. The Auditor General's suggestion would in fact result in the government taking certain actions in order to ensure that an asset could be reported according to the Auditor General's interpretation.

Q2. Why should an average person on the street believe the government over an independent officer of the legislature?

Look, it's clear there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

Prior to implementing the Auditor's change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

The government is accepting the expert panel's recommendations, which will inform the preparation of the Province's future financial statements

Q3. The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

As a result of the independent panel's expert assessment, we now have additional advice on how public sector accounting standards should be applied in regards to jointly sponsored pension assets. We thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

The panel's advice has also been shared with the Auditor General, and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to Ontario's future financial statements.

Q4. The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

Q5. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province’s fiscal results.

Q6. What did the panel recommend?

The panel’s report aligns with the Province’s position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province’s financial statements.

I’m not an accountant. But at a high level I can tell you that when it comes to dealing with a surplus in a jointly sponsored pension plan, the panel found that:

1. an asset does exist

2. that asset should be recognized on the Province’s books, and

3. unilateral control is not necessary to do so.

In fact, the panel noted that, by their very nature, unilateral control can’t exist in joint pension plans because it is a joint arrangement. The sponsors jointly control the asset and must agree on how it will be used.

Specific Budget Questions:

Q7. The Financial Accountability Officer (FAO) has slammed Ontario’s balanced budget as “artificial.” What’s your response?

Our plan to return to balance was clear: make strategic investments to grow our economy and manage growth while spending responsibly.

The proof is in the pudding — Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. Not only has Ontario’s economy been one of the fastest-growing among provinces, it is also the most efficient, with the lowest program spending per capita.

Since the recession, Ontario has added nearly 700,000 jobs, the majority of which are full-time positions and in the private sector. Our plan to invest in and transform public services has resulted in program expense-to-GDP ratio returning to its pre-recession level.

Ontario is forecasting a deficit of $1.5 billion for 2016-17 — the eighth year in a row that we're projecting to beat our deficit target. Furthermore, we're balancing the budget this year, eliminating the deficit from a high of more than $19 billion.

Q8. Are you using asset optimization to balance the budget?

The government has restored balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

Gains from the sale of qualifying assets are dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure.

Q9. What about cap and trade? How does that fit in to the picture? How are you helping businesses offset these costs?

The global economy is moving toward pricing carbon to address the threats of climate change.

As set out in the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, carbon allowance proceeds must be used for initiatives that reduce greenhouse gas.

Our approach to investing carbon allowance proceeds is both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

We are taking advantage of innovative clean technologies and alternative energy sources so that businesses can stay competitive and provide low-carbon goods and services to Ontarians.

Q10. What does continued borrowing and growing debt mean for future generations?

With our economic growth projected to continue and balanced budgets planned for the foreseeable future, Ontario is once again in a strong, healthy position. It also means the government no longer needs to borrow for operational purposes.

Increases in net debt will be limited to the net funding required for investments in capital assets — which not only contribute to Ontario's economic growth but also ensure that net debt as a per cent of GDP continues to decline.

Q11. Are you cutting programs to balance the budget?

Our plan reflects the values of Ontarians: to grow the economy and create jobs.

This plan is realistic and responsible. We have been managing our expenses and transforming how we deliver public services to make them more efficient and effective.

In fact, we'll be spending more on programs than was outlined in the 2016 Budget, including $11.5 billion in health care over three years and more than $190 billion in infrastructure over 13 years. This increase reflects what a balanced Ontario can do: deliver programs and services that make a difference for people today, while building for the future.

Q12. What are you doing to prepare for changes to the NAFTA?

Our economy is deeply interconnected with more than two dozen U.S. states. Those relationships support good jobs and growth across regions. We continue to strengthen relationships with our partners in the Great Lakes region and those in other parts of the U.S., as we've done in the past.

Our Premier continues to meet with American governors whose states have strong trading partnerships with our province. We will continue to work closely with the federal government and our provincial counterparts to ensure Ontario's economic interests are represented. We're working to support Ontario workers and businesses by advocating for free trade, which creates good jobs for Ontarians.

Q13. What is the status of Ontario's borrowing and debt management plan?

The net debt-to-GDP ratio is projected to be 38.3 per cent in 2016–17, an improvement from the 2016 Budget projection of 39.6 per cent.

Ontario successfully completed its 2016–17 borrowing program of $27 billion, the smallest since the recession. For 2017–18, long-term borrowing is forecast to be $26.4 billion. The government continued to keep interest on debt payments below the plan for 2016–17: it was $506 million lower than forecast in the 2016 Budget.

Q14. How do you plan to shrink the net debt-to-GDP ratio to pre-recession levels?

As of the end of March, Ontario's net debt is projected to be $301.9 billion — $6.4 billion lower than forecasted in the 2016 Budget.

That's why we are setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Q15. Why is the government adding $9 billion in new debt each year?

Ontario borrows money to finance deficits and to invest in capital assets. With balanced budgets, debt will no longer be incurred to cover operating costs.

With a balanced budget, money borrowed will go towards investing in public infrastructure like hospitals, schools, transit and transportation.

Net debt is increasing over the forecast horizon as a result of our continued investments in capital assets. These investments will focus on our priorities while also contributing to our economic growth — helping to accelerate the decline in the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.