Message

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Energy-related content is highlighted.

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