

# Opening Statement to the Select Committee on Financial Transparency

**October 23, 2018**

Good afternoon and thank you for inviting us to be here today.

My name is Peter Weltman. I was appointed as Ontario's Financial Accountability Officer on May 7, 2018. Sitting with me today is Jeffrey Novak, our Chief Financial Analyst, and David West, our Chief Economist. Also with me today are analysts from my team, including Matt Gurnham and Matthew Stephenson.

The Financial Accountability Officer is an independent, non-partisan officer of the Legislative Assembly whose statutory mandate is to provide the Assembly with analysis on the state of the Province's finances and trends in the provincial economy. The office was modeled after the federal Parliamentary Budget Office and, like the PBO, it helps to improve the financial transparency of government and aids the Legislature in holding the government to account.

Our office undertakes economic and financial analysis in response to requests from MPPs or committees of the Assembly. The office also undertakes analysis on my own initiative if I believe it will support the work of members of the Assembly. Our mission is to deliver timely and authoritative reports that aid legislators in better understanding the subject before them, allowing them to make more informed decisions.

Our office is neutral and non-partisan, and we do not provide recommendations in our reports. We do not take a position in the outcomes of policy discussions and debates except for one thing: we are committed supporters of budget transparency.

To that end, we would like to thank the Independent Financial Commission of Inquiry for its report. I would like to quote a paragraph from the Commission's report because I think it is worth repeating: "Confidence in the reliability of fiscal planning and financial reports prepared by the government is critical. Only a properly informed electorate can hold the government accountable for the decisions it makes."

To me, this is the defining feature of a democracy.

Given the scope of the Commission's mandate, it is (perhaps) not surprising that the work of our office aligns with many of the recommendations put forward by the Commission. Accordingly, I would like to take this opportunity to address some of the Commission's recommendations in the context of the FAO's own work.

Let me begin with the Commission's recommended budgetary baseline and in particular the recommendations for the accounting treatment of pension assets and the global adjustment refinancing under the previous government's Fair Hydro Plan.

The FAO publishes a bi-annual Economic and Budget Outlook which provides an independent assessment of the Province's medium-term economic performance and fiscal position. Since 2016, the FAO has been presenting its fiscal forecast on two accounting bases: one that was consistent with the Auditor General's recommendations and one that reflected the government's presentation. This approach ensured that our reports would present what we believed was the true fiscal position for the Province but would also allow for a comparison with the previous government's fiscal projections.

The existence of two fiscal presentations with two dramatically different stories led to some unavoidable confusion for both legislators and the public. And our reports were unequivocal in stating that the previous government's decision **not** to adopt the Auditor

General's recommended accounting treatment had reduced the clarity and reliability of Ontario's current and future fiscal position.

In our last Economic and Budget Outlook (released following the Spring 2018 Budget), the FAO projected a budget deficit of \$11.8 billion for 2018-19, an estimate that was similar to the Auditor General's Pre-Election Report, despite originating from a different analytical approach. In that report, to avoid confusion, we presented an estimate based on the Government's accounting in an appendix at the back of the report.

Second, I would like to comment on the Commission's recommendations on medium-term fiscal planning. As you know, the *Fiscal Transparency and Accountability Act* (the FTAA) governs Ontario's fiscal policy. The Act provides a framework for transparent fiscal policy development and reporting. In particular, the Act permits governments to run a budget deficit in extraordinary circumstances but requires that it also publish a recovery plan for returning the budget to balance.

However, the FTAA does not define what constitutes extraordinary circumstances and does not require the government to detail how it will deliver on its deficit recovery plan. The lack of details in the previous government's recovery plan made it challenging for the FAO (and one can assume, the legislature and the voters they represent) to adequately assess the 2018 Budget's fiscal projections. As such, the FAO supports the Commission's recommendation to review the Fiscal Transparency and Accountability Act and improve its effectiveness in guiding government fiscal planning and reporting.

Third, I would like to comment on the Commission's recommendation to expand Ontario's long-term report on the economy to include additional analysis on fiscal sustainability. It's worth noting that the FAO currently publishes bi-annual long-term budget outlooks (the LTBO) which assess the Province's long-term fiscal sustainability. Our last LTBO, released in the fall of 2017, highlighted the significant fiscal challenges facing the Province, stemming largely from Ontario's aging and more slowly growing

population. Accordingly, we agree that a more frank and public discussion about the province's future fiscal challenges would benefit all Ontarians.

Finally, in addition to our economic and fiscal forecasts, the FAO has published a number of reports on specific policy decisions that are relevant to the findings of the Commission with respect to the Fair Hydro Plan and the partial divestiture of Hydro One.

In May of 2017, in response to requests from two MPPs, the FAO released a report on the government's Fair Hydro Plan. The purpose of this report was to review the various components of the Fair Hydro Plan and report on the expected cost to the Province and electricity ratepayers.

While undertaking work on our report, we became aware of the complicated accounting and financing structure that was proposed for the global adjustment refinancing. The government's position was that the borrowing required to refinance the global adjustment would not impact the Province's budget balance. In our opinion, it was uncertain if this position on the accounting treatment was correct and we recommended that MPPs obtain assurance from the Auditor General of Ontario that the government's proposed accounting treatment for the global adjustment refinancing met with public sector accounting standards and would not impact the Province's budget balance.

I would like to note that the Auditor General is tasked by the Assembly to review and ensure that the consolidated financial statements of the Province meet with Canadian public sector accounting standards. When the FAO reviews the Province's annual budget plan or analyzes the fiscal impact of a specific policy proposal, as with the Fair Hydro Plan, we perform our analysis reflecting the applicable accounting standards. However, when novel accounting treatments arise, it is our position that the appropriate referee is the Auditor General of Ontario.

The Commission's report also commented on the partial sale of Hydro One and expressed concerns that time-limited gains from sales of assets can mask underlying deficits and also require the government to forego future revenue. The FAO has produced two reports on the partial sale of Hydro One, most recently in February of 2018, which estimated the gain to the Province from the sale of Hydro One as well as the long-term impact to Provincial net debt.

In addition, in our Fall 2017 Economic and Budget Outlook, the FAO first identified that many time-limited revenues, including the gain from the partial sale of Hydro One, were set to expire in 2017-18. The loss of these time-limited revenues partly explains the sharp increase in the projected budget deficit this year. In fact, in our last Economic and Budget Outlook (released in May), we estimated that the Province was already facing an existing budget deficit of about \$8 billion this year, before any new measures proposed in the 2018 Ontario Budget were included. New measures from the 2018 Budget added another \$4 billion for a total deficit of approximately \$11.8 billion this year, based on our estimates last spring.

The FAO is pleased to support the work of the Select Committee and we are happy to take your questions.

Thank you.

**-- Check Against Delivery --**

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