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Mercredi 4 novembre 2015

Standing Committee on Public Accounts

Comité permanent des comptes publics

Committee business

2014 Annual Report, Auditor General

Travaux du comité

Rapport annuel 2014, vérificatrice générale

Chair: Ernie Hardeman
Clerk: Valerie Quioc Lim

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 4 November 2015

Mercredi 4 novembre 2015

The committee met at 0901 in room 151.

COMMITTEE BUSINESS

The Chair (Mr. Ernie Hardeman): I call the meeting of the Standing Committee on Public Accounts to order. I thank you all for being here.

Our first item this morning is a motion filed by Lisa MacLeod requesting that the Auditor General review the monies paid to bargaining units in the negotiations that fall under the Ministry of Education's mandate.

I know the motion was filed at our last meeting. My understanding is that the mover of the motion is proposing to read into the record a slightly amended motion but dealing primarily with exactly the same issues. Ms. MacLeod, would you like to read your motion into the record?

Ms. Lisa MacLeod: Yes. Thank you, Chair. After speaking to a number of individuals, the motion that I put forward last week, which was a draft, has been slightly amended. This is the first formal tabling. This is the motion, and it will be circulated by Valerie:

That the Standing Committee on Public Accounts request that the Auditor General review the monies paid to bargaining units in the 2008—

Sorry; I picked up the wrong motion. May I start over, Chair?

The Chair (Mr. Ernie Hardeman): Start over.

Ms. Lisa MacLeod: Motion by MPP MacLeod to the Standing Committee on Public Accounts:

That the Standing Committee on Public Accounts request that the Auditor General review the monies paid to bargaining units since 2008 related to negotiations with bargaining representing school board employees that fall under the Ministry of Education's mandate, with specific analysis of the $2.5 million the government spent this year.

This report should include, but not be limited to, a focus on the following issues:

(1) Where did the money come from in the ministry or government's budget?

(2) What are/were the payments to the bargaining units intended to fund?

(3) Is paying the bargaining units for negotiations a practice used in other jurisdictions?

Finally, this report should be completed and reported to the House by spring of 2016.

I have asked the Clerk to circulate that motion. I am wondering, Chair, if you are inclined to hear my point of view or if you would like to open it to the floor?

The Chair (Mr. Ernie Hardeman): As soon as this has been circulated, we will turn the floor back to you to speak to the motion as you see fit.

Ms. Lisa MacLeod: Okay. Thank you, Chair. This motion, obviously, came forward in light of the $1 million in payments in the collective agreement that circulated just over a week ago and was leaked to the Globe and Mail. The $1 million in payments at the time was believed to have been unreceipted. After numerous questions in the Legislature, it didn't unveil itself until later in the week that there would be receipts requested for that amount of money.

In addition to that, it was very clear, in both media coverage and election financing, that many of the unions that received this, at the time, unreceipted and undocumented payout from the government also contributed to an organization called the Working Families Coalition.

Chair, the Working Families Coalition was a public-sector-union-driven campaign against every single Progressive Conservative leader or leader of the official opposition, beginning with Mike Harris, then Ernie Eves, John Tory, Tim Hudak, and I suspect next will be Patrick Brown.

As a result of that, it was indicated in some media outlets that in the last election, the Working Families Coalition paid upwards of $6.5 million in attack ads against the Progressive Conservative Party, of which I am a member. That was more than every single other political party spent on advertising.

You look then at these payouts, and many people across Ontario, particularly in the public, regular people—I heard it, in fact, when I was taking my daughter trick-or-treating on Halloween—were actually making a connection. Whether that's right or wrong, that's why I asked the auditor to look at this, and whether or not that payout was a quid pro quo. That's not for me to determine, but I believe that's something that should be explored here.

It goes back to a discussion the government has had for quite some time with respect to this so-called notion of net zero—that they're actually saving money and they're reapplying this money to contract negotiations.

We have a number of issues, I think, that we look at: Where is this money coming from? Is it, as most

Ontarians believe, money that's intended for kids in classrooms being diverted for political advertisement? What are the payments to the bargaining units intended to fund? Are they for ads, are they for training, are they actually for legitimate meeting spaces? Why isn't that money taken from union dues? Is paying the bargaining units for negotiations a practice used in other jurisdictions? I think that's a fair question as parliamentarians here discuss this motion before us.

I think that we need to have a timely report from the auditor. I want to make two points on this. First, I had indicated I would like to see this happen before December. I am very much aware we're now into November. I also understand that the auditor does put forward reports at the beginning of December, which will not only keep her office occupied, but of course will keep the assembly occupied during that particular time as well.

I also wanted to initiate this report because I think the auditor did a good job when we went through similar labour strife—maybe a bit more chaotic and a bit more complex—back in 2012-13. At the time, we empowered the auditor in that minority Parliament to look at those education contracts. It was revealed that $468 million in additional monies were given as a result of that. The public would see this as a logical extension of not only her insights and our ability to get some accountability for public money, particularly money intended for kids in classrooms, but I think, given the public pressure that we have seen over the past week and a half across Ontario, this is a logical next step with this particular case.

The reason we would go back to 2008 is we want to see if this practice has been done, if there has been receipting, and compare this $1 million that we are talking about with respect to OSSTF and then with the other bargaining units, and then go back to 2008 to see if that had been done, if it had been receipted and what the practice has been in the past.

I think when you are sitting as a member of the official opposition or any member of the public, you're looking at something—on the one hand, the Premier says it's business as usual, then two days later the Minister of Education indicates that it's not business as usual. They can say what they want, and we can believe or choose not to believe either of them. That said, I think the Auditor General is beyond reproach. Her team going in to look at this is not only a fair thing to ask in the assembly, but it's also a very reasonable request on behalf of the public.

There does seem to be a lot of support out there. I was encouraged that the President of the Treasury Board and Deputy Premier, Deb Matthews, had indicated support for this motion. Today I'm hopeful that the government will not weaken this motion. I saw one of their members huddling with the union leader just before we started this particular exercise this morning. I would hope that there is no public pressure on behalf of some of their electoral partners, that they would look at what's in the best interests of Ontario students, that they would look in the best interests of this assembly, that they would look in the best interests of public accountability.

0910

If I may say, the other issue I do have with respect to public accountability—I have been Treasury Board critic for quite some time. I was charged within my caucus, the Progressive Conservative caucus, to deal with Bill 8 and the accountability measures that were contained therein. I'm happy my colleague from Ottawa South is here; he put forward groundbreaking legislation that was adopted by his government with respect to MPPs' receipting and accounting. I think it is only fair that not only do I support that initiative for myself and for all of my colleagues in the Legislature, but I believe any public dollar that is being spent, to the tune of $1 million or $2.5 million or $3.14 million or $7.1 million or $66 million—all of those numbers that we've heard this week—also should have the same level of public accountability and the same level of transparency. That's why I believe it's imperative that the Auditor General go in and monitor these payouts to ensure that they are receipted, that they are legitimate, that they are credible.

Hearing this morning the minister in the House say one thing, that she will support this legislation, and then hearing this morning that the government is going to water this down significantly, I would ask them to support this motion and to understand that the important issue here is the integrity of our education system. To defeat this motion, to vote against this motion or to water down this motion would be, I believe in my heart, an attack on the public accountability of the education system and an attack on the integrity of this Parliament, given the fact that the minister responsible for the Treasury Board and Deputy Premier herself indicated her government's support for this motion.

After a great deal of consultation and listening to what the public is expecting, I put forward this motion in good faith in order for us to proceed and have an audit report completed at some point before the spring of 2016 so we may gain clarity on not only what this practice is and if this process is used elsewhere, but, if it isn't, why we did it. If it is, how can we build better accountability mechanisms in, and can we provide moms and dads across Ontario with the sound knowledge and confidence that the dollars that they send to Queen's Park—and this is very important—that the money that mothers and fathers pay through their taxes, which comes to Queen's Park, is used for education and not for political advertising against the opposition? I think that speaks not only to the integrity of our education system and our taxation system, but it speaks to the very core of our democratic values that we hold here at provincial Parliament in Toronto, at Queen's Park.

With that, I'm happy to take any questions, but I believe that this motion, as it is, should be the one that passes here today. I would encourage my Liberal colleagues, the government, to pass the motion, as the Deputy Premier and Treasury Board president indicated. If you're not prepared to do this, then I think you have a lot of explaining to do not only to the media, but particularly to mothers and fathers who have had unprecedented labour strife since 2012 in this province.

The Chair (Mr. Ernie Hardeman): Thank you. Mr. Fraser.

Mr. John Fraser: Well, I'm not sure who the member was huddling with this morning, but we are going to support the motion as is. However, it's just prudent for us—I'd like to hear the Auditor General's comments, and then we can dispense or hear comments from my other colleagues.

Ms. Lisa MacLeod: Dispense?

Mr. John Fraser: Well, just get it done. Not dispense but, you know—

The Chair (Mr. Ernie Hardeman): Further discussion before we go to the Auditor General? Mr. Potts.

Mr. Arthur Potts: I would hope that the member opposite would have read the book Getting to Yes. Sometimes, when you want to get to yes, you simply put the motion and we say, "Yes."

The Chair (Mr. Ernie Hardeman): Any further comments?

Auditor, could you speak to the issue as it relates to your workload?

Ms. Bonnie Lysyk: Yes. The spring of 2016 would be realistic. In terms of the three items, we will do our best to determine all three and provide an answer to all three questions, as best as we can. A lot of it will depend on documentation and access to information.

The Chair (Mr. Ernie Hardeman): Okay. Is everybody happy with that? According to my instructions, shall I then put the question?

Ms. Lisa MacLeod: Recorded vote, please.

The Chair (Mr. Ernie Hardeman): A recorded vote has been requested. We'll call the question.

Ayes

Ballard, Fraser, Gretzky, Hoggarth, MacLeod, Munro, Potts, Rinaldi.

The Chair (Mr. Ernie Hardeman): The motion is carried.

Thank you, all. That concludes the open session. We now move to closed session.

The committee continued in closed session at 0915 and resumed at 1230.

2014 ANNUAL REPORT, AUDITOR GENERAL

Consideration of chapter 2, public accounts of the province.

The Chair (Mr. Ernie Hardeman): The sound of the clock striking 12:30—that was not it; that was my gavel, but it has ticked by the 12:30 mark, so we want to reconvene the Standing Committee on Public Accounts for consideration of chapter 2 of the 2014 annual report of the Auditor General: public accounts of the province. We have here with us the Treasury Board Secretariat, the Ministry of Finance and the Ontario Financing Authority.

With that, we will have the meeting and have you make your presentation. Before each one speaks, if we could make sure that you introduce yourselves for Hansard, to make sure we get it right. I used to try and do that myself, but that didn't help Hansard get it right. Now we leave it this way, and I'm sure it will be pronounced just the way it was supposed to be.

Thank you very much for being here. I will turn the floor over to you.

Mr. Greg Orencsak: Great. Thank you, Mr. Chair, and thank you, committee members. My name is Greg Orencsak. I'm the Deputy Minister of the Treasury Board Secretariat, and on behalf of me and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on chapter 2 of the Auditor General's 2014 annual report, which includes discussion of the province's debt and a number of accounting-related issues that we share as a priority and which are integral to transparency and accountability in public sector financial reporting.

We concur with the Auditor General's observation that standard-setters, governments and auditors must work together if we are to resolve financial reporting issues faced by governments and public sector entities. I am particularly pleased that we have had such a long and positive working relationship with the Auditor General's office, and that we agree on the importance of producing high-quality financial reports which serve the transparency and accountability needs of the public and the Legislature. We're also proud of the fact that we have received our 22nd clean audit opinion from the Auditor General on our most recent audit of the 2014-15 public accounts.

Throughout today's discussion, you may hear several references to public sector accounting standards and their relevance not only in preparing the province's consolidated financial statements, but in relation to the government's fiscal planning process and potential impacts on the government's fiscal policy decisions. In fact, since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on fiscal policy decisions made by legislators.

I'd like to talk for a moment about government financial reporting, and on what the primary users of this information expect from their governments. I'm sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which PSAB's public sector accounting standards are set.

As you know, governments have a very different public duty than private businesses. Clear, concise and understandable public reporting of financial information is crucial to governments, which are held accountable for good financial management of taxpayers' money.

In Ontario, public reporting of government's financial results is prescribed by the Fiscal Transparency and Accountability Act. With the passing of this act in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent. The act enshrines what type of financial information, and at what time of the year it is to be released to the public.

Ontario also uses indicators of financial condition to assess the financial health of the province as part of the annual report included in the public accounts each year. PSAB's suggested approach is for governments to provide indicators that illustrate sustainability, flexibility and vulnerability. Flexibility refers to the options available to a government to achieve its fiscal plans. Vulnerability refers to the risk of fiscal impacts from decisions and events outside government's control.

Factors influencing vulnerability include heavy dependence on transfers from another level of government and high exposure to changes in foreign exchange rates. To give you an example, while taxation revenue has recovered over the past several years, in step with the improving economy, federal transfer revenue peaked as a share of total revenue for Ontario in 2010-11, reflecting federal stimulus spending to counter the recession.

Although Ontario relies mainly on its own sources of revenue, it remains vulnerable to federal decisions that could, in many instances, result in volatility and uncertainty in the amount of federal transfers that the province receives. Pages 18 through 22 of our 2013-14 annual report were dedicated to an in-depth discussion of these types of indicators, making up about 20% of the content of that report.

I'd also like to say a few words on PSAB's new financial instruments standard, which would, if implemented as is, include unrealized fair market value gains and losses on the government's financial statements. Not only do governments have concerns that such accounting would misrepresent the economic substance of the underlying transactions, but we are also concerned that users could not reasonably be expected to understand and interpret properly the impact of such short-term fluctuations in relation to government performance and compliance with balanced budget requirements.

While we are pleased that PSAB has again deferred the implementation date for its new standard to allow it to continue with its assessment regarding senior government concerns, there remains uncertainty regarding the standard-setter's future direction.

We remain concerned with the ability of the general public to grasp this complex financial information related to reporting of paper gains and losses, which would reduce the usefulness and understandability of the government's financial statements for accountability reporting purposes. In short, the actual results reported under the new standard would no longer be comparable to the province's budget and would not represent the substance of the government's activities.

We are also pleased to share with you the fact that a recent report from the C.D. Howe Institute on federal and provincial reporting practices has recognized the usefulness, readability and transparency of Ontario's annual report and consolidated financial statements. Ontario received a grade of A, ranking us among the best in the overall quality of our reporting on our financial results.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest.

With that, I will now turn it over to my colleague Scott Thompson.

Mr. Scott Thompson: Thank you, Greg, and good afternoon, ladies and gentlemen. My name is Scott Thompson. I'm the Deputy Minister of Finance. I'm pleased to be here today before the Standing Committee on Public Accounts. I want to thank the members of the committee for their participation and for their attention today, because there are several important features of this chapter of the report that we'd like to draw attention to.

This government is committed to openness and accountability, so I welcome this opportunity to expand on what the Ministry of Finance has been doing to address the Auditor General's concerns with respect to the 2013-14 public accounts of Ontario. Parliamentary oversight of a government's spending, as you know, is a key element of fiscal accountability under the Westminster-style parliamentary system.

I would also like to thank all my colleagues and staff at the Ministry of Finance—many of whom are behind me here today—who have worked so hard in preparing for today's session.

The Auditor General's report noted that in the past 21 years, all of the province's consolidated financial statements have resulted in clean audited opinions. As Greg noted, I am also proud to add that with last year's statements, it is now 22 straight years. I believe this speaks to the high standards and professionalism of Ontario's public service in this regard.

In her report, the Auditor General expresses concerns on the province's growing debt burden, which she notes is attributable to "government borrowing to finance deficits and infrastructure spending." So I would like to make some brief remarks on what the government is doing to address these points.

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With regard to deficits, the government is committed to eliminating the deficit by 2017-18. Working towards this goal, 2014-15 marked the sixth year in a row that Ontario reported both lower-than-projected program expense and a deficit lower than forecast. As a result of beating its deficit targets, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been. Gadi, who has responsibility for financing the debt, will probably talk a little bit further about the importance of that.

This improvement over plan is due in large part to managing growth in spending. Over the past four years, the average annual growth in program spending has been held to 1.4%, less than the rate of inflation. The government is now projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17 and, as you know, a return to a balanced budget in 2017-18. At the same time, the government's four-point economic plan is working to grow the economy to increase revenues.

One of the things the government has been doing is taking significant steps to make the province's business tax system more competitive to create the conditions for long-term economic growth. Ontario's combined federal/provincial general corporate income tax rate is now lower than the combined federal/state general corporate income tax rate in every US state, which is attracting foreign investment. To that point, fDi Intelligence, a division of the Financial Times Ltd., named Ontario as the North American leader in attracting foreign capital investment for the second straight year, outperforming all US states and all Canadian provinces.

Other business tax reduction measures undertaken by the government in recent years include eliminating the capital tax, the move to the harmonized sales tax, business education tax rate reductions and savings from both a single sales tax and corporate tax administration.

The government's economic plan also includes investing in modern infrastructure. This is important to note, as the Auditor General points out that part of the rise in the province's debt is due to its investments in capital assets. The government has been clear that it is investing more than $130 billion in public infrastructure over 10 years. In total, these investments will support over 110,000 jobs per year, on average, in construction and related industries. Through its ongoing and planned investments, the government is renewing and expanding transportation and other critical infrastructure.

Over the last decade, the province has made unprecedented investments in infrastructure, supporting mobility and economic growth. Investments include:

—$31.5 billion available over 10 years for public transit, transportation and other priority infrastructure projects across Ontario;

—more than $11 billion over 10 years in capital grants to school boards;

—almost $900 million over 10 years to address critical maintenance repairs and upgrades to existing post-secondary facilities; and

—more than $11 billion in hospital capital grants over 10 years to provide adequate infrastructure capacity in the health care sector.

The government has also been clear that these are investments to help grow the economy. A recent report found that, on average, investing one dollar in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the longer term.

Finally, and directly related to its plan to build new infrastructure, in its 2015 budget, the government committed to an assets target of $5.7 billion. This is an additional $2.6 billion in dedicated funds from what was included in the 2014 budget. These dedicated funds go into the Trillium Trust, which in turn supports the province's key infrastructure priorities such as roads, bridges and public transit.

I am happy to answer any questions the committee may have, and I would like to ask my colleague Gadi Mayman, from the Ontario Financing Authority, to speak to the Auditor General's comments on what the government has been doing to address Ontario's debt burden.

Thank you.

Mr. Gadi Mayman: Thank you, Deputy Minister Thompson.

Good afternoon. My name is Gadi Mayman and I'm the chief executive officer of the Ontario Financing Authority, or the OFA. In this role, I'm responsible for the province of Ontario's borrowing and debt management strategy, corporate and electricity finance projects and its banking relationships. I also manage the province's relationships with the credit rating agencies, bond underwriters and investors.

To begin, I would like to thank the Standing Committee on Public Accounts for this opportunity to speak on what we have been doing to address the points raised by the Auditor General with regard to Ontario's debt.

Net debt to GDP is now projected to be 39.5% in 2014-15 and is expected to peak at 39.9% in 2015-16 compared to the forecast peak of 40.8% in the 2014 budget, 40.4% in the 2013 budget and 41.3% in the 2012 budget. The government is committed to reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27%.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2014-15, borrowing $39.8 billion. So far in 2015-16, the province has borrowed $20 billion of its $31-billion requirement. Through prudent and cost-effective debt management, the province has 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. As of October 30 of this year, the average term for new borrowing in 2015-16 was 16.2 years. In fact, going back to the beginning of fiscal 2010-11, five and a half years ago, Ontario has issued $52.4 billion of bonds longer than 30 years in term in order to lock in low interest 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 14.1 years last year and, as I mentioned, 16.2 years so far this year.

The 2010 budget forecasted that by 2015-16, the province would have to spend 11.9 cents on interest for every revenue dollar received. The current forecast is 23% lower than that, at only 9.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992-93 through to 2005-06, and is forecast to remain lower through the period to balance in 2017-18.

The province takes a very prudent approach to managing the risks associated with its borrowing program. Ontario limits itself to a maximum net interest rate resetting exposure of 35% of debt issued for provincial purposes and a maximum foreign exchange exposure of 5% of debt issued for provincial purposes. As of September 30—we're well below those limits—the values for net interest rate resetting exposure and foreign exchange exposure were 10.6% and 0.3%, respectively—as I mentioned, well below policy limits.

The province will remain flexible in its borrowing approach by monitoring all major markets globally and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program. This will include continuing to reach out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

Thank you, and I am happy to answer any further questions you may have.

The Chair (Mr. Ernie Hardeman): Thank you very much for your presentation. We'll now have questions from all three caucuses, and we will start the first round of 20 minutes each with the official opposition.

Ms. Lisa MacLeod: Thank you all for coming in today. I appreciate it. I'm sure you were surprised that we decided to choose the public accounts for the province.

What an interesting day indeed. Earlier today, we passed a motion in this assembly to look at some of the payouts in education with respect to the collective bargaining process. Around that same time, the Financial Accountability Officer put into question a little bit the finances of the province and the ability to get out of deficit by 2017-18. In fact, the FAO suggested that we could be running a $3.5-billion deficit, when you, just a few minutes ago, said that it would be wiped out, and—I've got notes all over the place here; I guess I'll just have to go without them—that growth in the economy has slowed down from 2.8% to 2%, and that's going to have a significant impact on the province's bottom line, not only on our GDP-to-deficit ratio, but in terms of how we can get back to balance ultimately.

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It leaves me, as a member of this assembly but also as a taxpayer in the province of Ontario, to wonder. With the Financial Accountability Officer coming out today—and he did a couple of days ago, as well, with respect to the asset sale at Hydro One, suggesting that we were going to lose a significant amount of money in the years to come. We may have an enhancement this year, but in years to come we won't. I'm left to wonder how you are going to find that revenue when we've got an economy that is slowing, when we have a deficit and, as a result of that, the debt burden we have, and a credit rating decrease, which is also causing us to pay more money on the deficit.

By the way, when we invited you in, we didn't know he was going to be putting his—we didn't intentionally put you on the spot. But I'm wondering if you could shed some insight—and I'm happy to give you the floor there. But I have to say that he is an independent officer of the assembly, as is our auditor, so their credibility is very key to, obviously, the opposition and the members of the public and, one would hope, the government. So, if I could just have your comments on his report today and the presentations that you've made today.

Mr. Scott Thompson: Sure. I'll start, and others can kick in, if they wish. I think that there are a couple of things about the FAO and his report that are important. One is that while he did identify some risk in the fiscal plan, he also identified that the balance in the balanced year of 2017-18 was achievable.

When you do forecasts, whether it's in-government or the Auditor General or the FAO, they are simply that: They are forecasts. You have to build uncertainties and risks into your forecasts. We were happy to work with him so that he understood the nature of the fiscal plan and the path to balance.

I think, as the minister pointed out in the House this morning in his statement, the economy is continuing to grow. It's not shrinking; it is continuing to grow. We are, in fact, among the top two or three in the country in terms of economic growth. He points out an important factor in any fiscal plan, and that is that economic growth is uncertain and based on a whole lot of variables that we can't predict with certainty.

The fact that the economy, in his opinion, is coming in, this year, at a lower rate in terms of GDP growth is something that worries us. We want to do everything we can to incent greater growth—that's what I spoke about in my opening comments—whether it relates to enhancing skills and training or whether it is infrastructure and other ways of stimulating jobs and economic growth.

We build in the same kind of risk when we do our fiscal plan. You will see an update on that when the fall economic statement comes out in a few weeks. The other important thing about risk is that we build prudence into our plans. We don't take the private sector economic forecasts and just lock them in; we always reduce it by a tenth so that we have some prudence built in there. We have reserve and contingency funds, all of which gives us the ability to roll with the punches, if you will, in terms of things that are unpredicted and uncertain.

He points out that we can achieve balance by 2017-18. We wouldn't deny that there is risk and and we wouldn't deny that there is heavy lifting involved in getting to the 2017-18 balance.

Ms. Lisa MacLeod: Just to go back, he predicted that we would have a $3.5-billion deficit in 2017-18. He said that he was unclear as to how the government would get to balance, given that the growth projections in our economy were stalled. We're taking in less revenue and we have greater population growth, meaning we're going to have a greater reliance on public resources. So he said that there were a lot of ifs.

I'm just going to give you a quote: "The planned growth in spending is also well below the expected growth in population and price inflation—key drivers of government expenditures," said LeClair. I think the question that we would have in the opposition—I think it's a combined opposition; I would say that both my leader, Mr. Brown, and the New Democrats' Ms. Horwath questioned how the government's projections can be so far off from the Financial Accountability Officer's.

When you look at the Financial Accountability Officer, he is responsible to the entire assembly, not to the government, and he has laid out, I think, some very big concerns on how the government can get back to balance. When we talk and you say "heavy lifting," and he has what-ifs, the question is, how do you balance? Are you looking at new tax increases? Are you looking at increased money that we don't know about coming from the federal government? Are there going to be massive cutbacks and layoffs?

Mr. Yvan Baker: Point of order.

The Chair (Mr. Ernie Hardeman): Point of order? Yes?

Mr. Yvan Baker: I think we're here today to talk about the Auditor General's report, so I would humbly suggest that the member is asking about a topic that is not relevant to the Auditor General's report.

The Chair (Mr. Ernie Hardeman): Yes; I would advise that the discussion today should be directed towards the auditor's report, not the Financial Accountability Office, so if we could get back to that.

Ms. Lisa MacLeod: Sure. All I'm suggesting is that we have the public accounts before us for the province of Ontario, and with respect to recent information that has now come to light, I think it's important that this committee reconcile that information. We have before us two independent officers of the assembly. I'm well within my rights as a member, Chair, to ask questions of finance officials when they're before us.

This information that came out today I think was quite relevant. When you're making one projection, I'm entitled to ask why someone else is making an entirely different projection which suggests that it's about $3.5 billion. When you look at the consistent credit downgrades of this government, when you look at the fact that we haven't seen any decreases in spending, how are we going to get to balance? That's all I'm asking, and I think it's a legitimate question.

Mr. Yvan Baker: Point of order again, Chair. The Auditor General has done a tremendous amount of work here to put this report together for us, and we're here to cover that topic. I'm not saying these topics aren't important, but I'm saying they're not relevant to what the Auditor General's findings are, and I think we should be speaking to that.

The Chair (Mr. Ernie Hardeman): Again, I would just point out that the hearing today is to deal with the Auditor General's report. So I'm sure that the member, recognizing that, will get to how her questions connect to the Auditor General's report.

Ms. Lisa MacLeod: Sure. Okay. The fact of the matter is that we have a report in front of us where the auditor recommended very clearly that, "In order to address the province's growing total debt burden, the government should work toward the development of a long-term total debt reduction plan." When I sat as a member of the assembly today inside question period, that number—that long-term total debt reduction plan—seemed to be put in question by another independent officer.

As a member of the assembly, I take the government's long-term total debt reduction plan seriously, and it appears that there is a gap between the numbers in this document and other numbers that are out there. If, as you said yourself, you're taking that new $3.5-billion number seriously, and those what-ifs, I'm asking, how do you make up the revenue? If there are a number of projections out there, including a new asset sale—by the way, when this report was initially completed, that asset sale hadn't been completed; the asset sale will be dealt with by tomorrow—how do you deal with those new numbers, as we look not only through 2015-16, but 2016-17 and 2017-18?

1300

Mr. Scott Thompson: If I understand, I think the crux of that question was whether we're contemplating new revenues in order to make up the gap. There have been no new revenue measures identified.

The important part that connects back to the core issue here is—one of the measures for debt is net debt to GDP. The common denominator between revenue and growth is that GDP growth will create government revenue. A lot of what the government has in its plans—as you know, we have two or more plans a year; one is in the budget and one is in the fall economic statement. This fall's economic statement is yet to come, so I'm not going to predict what's going to be in there. We have certain core pillars to the plan that relate to growing the economy, and it's that growing of the economy that is central to creating the kind of revenue that we are projecting in order to balance the budget.

Ms. Lisa MacLeod: When I look at, for example, the ministry's response to this auditor's recommendation, you indicate that the province's net debt-to-GDP ratio has improved from 39.1% to 38.6%. She has moved forward and said that with regard to debt management—the auditor believes that the government should also look at developing a long-term debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%. You're quite a piece away from that. Your response is, effectively, that you support that and you'd like to achieve that target. I'd like to ask for a few more details in how close you are to achieving that target. Will that be available in the fall economic statement? Is that something we should look at there? And by the time of 2017-18, what is your plan to achieve that?

Mr. Scott Thompson: I'm going to turn this over to Gadi in a second, to talk with more specifics, but I believe the Auditor General's report had the chart of what we expected the net debt-to-GDP ratio to be over time. It shows the trajectory historically but also a few years into the future, and certainly there is a goal of getting it back to that pre-recession level of 27%.

The outlook for the near future—I think we're able to update a little bit from the Auditor General's report: Public accounts, this year, said it was going to be 39.9%. It is peaking; it will peak at 39.9% and then have a reduction starting in 2017-18, when it will be 39.3%. Perhaps I can ask Gadi to expand a little bit on that.

Mr. Gadi Mayman: Thank you, Scott. The key plank in getting towards the 27% debt-to-GDP ratio is to first balance the budget. As the Auditor General has said and as we've talked about in budgets and fall statements, debt is incurred for two reasons: one is for deficit, and the other is to invest in capital assets. The government, as you're all very well aware, has a $130-billion plan over 10 years to invest in capital. That capital gets amortized over a period of time, and the difference between what the cash investment is in a year and the amortization, which is a non-cash amount that comes off—that amount increases the debt. Even after we balance in 2017-18—and the government remains committed to balancing in 2017-18—debt will continue to grow. But that debt will be for investments in capital assets. Those investments in capital assets—one of their objectives is to improve the growth trajectory that the province has. As it increases growth, GDP grows, by definition; therefore, the ratio comes down.

The government's plan hinges on, first, balancing, and then having the economy grow more quickly than what the growth in debt to invest in capital will be.

Ms. Lisa MacLeod: The only problem is, with respect to terms of growth, we're already looking at—according to documents today, we'll have a billion-dollar shortfall. That's quite significant if you are looking at your numbers and your projections.

With the new information, do you take that back and rejig your projections? If you're looking at a billion dollars less than you had expected and this is going to amount, over time, to a larger deficit, at what point do you provide that to the assembly? At what point do you provide that to your minister? At what point is that reflected in a budget?

I guess the challenge that I have, and that I think many members of the Progressive Conservative caucus have, is that we have been saying for quite some time that we have a considerable problem in the province, given the fact that we've got such a significant debt and that there are such significant risks now with a slowing economy, with a major asset sale that has raised red flags, and with the fact that our population is growing at a time that our economy isn't matching that growth as well. A year later, documents could significantly change, and I'm still very nervous that we're not going to get out of deficit by that target.

Many of the answers—and I mean no disrespect—seem to fly in the face of what we know. It seems rosier or sunnier than the reality. I think the concern I have is that if we're going to have a billion-dollar shortfall in revenues this year, the only way to make that up over time even now is either through massive layoffs in the public service or through tax hikes or a combination of both. I'm just wondering: Can you confirm today that the government is going to go ahead with a land transfer tax? Can you confirm today what kind of a carbon tax will come in in the province? These are questions that I think people would expect to be answered, and I just happen to have you here today to ask those questions.

Mr. Scott Thompson: From what I heard, the core of the question relates to the chapter in front of us today, and that is, when we look at a plan, there are, as you acknowledge, in the FAO's reports, a lot of ifs. We deal with ifs all the time. We have to look to the future economic situation, the conditions. The chief economist, who is here with us today and who I hope is behind me, is responsible for looking at all the variables that play into what economic growth could be. Certainly, what the FAO did was take another look at that and plug in other variables and other assumptions.

To answer your question about when we go to the minister or when we go to the Legislature, we go to the minister all the time and talk about economic situations and conditions, with an update, whether they're good or bad. Then we have our two milestone documents every year, the fall economic statement and the budget, where we provide an update to that.

The other factor in play for economic growth is that we do, again, at least twice a year, poll the private sector economists. So this isn't just our assumption and our opinion; we poll the private sector economists on what they're projecting for this year, for the next two years, and, as I said earlier, we average those projections out. There must be a dozen different banks and other economic houses that give us projections. We discount that, so we build some prudence back into that forecast. That's how we try to build that kind of economic forecasting into our plan, and we would update the minister regularly on that.

The Chair (Mr. Ernie Hardeman): Thank you. That concludes the time.

To the third party.

Ms. Peggy Sattler: Yes, thank you very much. I wanted to direct your attention to page 34 of the report, dealing with the financial performance as of March 31, 2014.

In that section of the report, the auditor points out that there was a projected deficit of $11.7 billion for 2013-14, but an actual deficit that was $1.3 billion lower. That was due to both lower program expenses and also higher-than-projected revenues.

On the program expenses, the auditor says there was $600 million less that was spent in education due to lower-than-expected school board expenses; $300 million less spent in the children and social services sector; and $300 million in reduced spending across all other ministries.

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I'm wondering if you could provide us some details as to what exactly was cut to achieve the lower-than-forecast spending in those areas.

Mr. Greg Orencsak: Sure, I'll tackle that. The public accounts each year report on the results of overall spending compared against the budget. The budget includes expenditure forecasts for a large gamut of government programs.

Overall, the government of Ontario spends about $120 billion a year on a variety of programs. Those programs are delivered either through ministries or through transfer payment partners and, in addition to that, through entities like hospitals, school boards, colleges and post-secondary institutions. That is a significant component, a significant share, of our GDP, on the order of 15%.

At the end of the year, we reconcile what the final spending amounts are against those originally allocated budgetary amounts. There's always some variance, up or down, when it comes to forecasts with that kind of magnitude.

We report out in the public accounts on the changes. Some of the changes have to do with lower take-up, for example, of entitlement programs. A forecast is made at the beginning of the fiscal year, which then is adjusted for what the actual take-up was for an entitlement program like social assistance or many aspects of the health care system, for example.

In the public accounts for 2013-14, we reported on the details of those changes by sector. Roughly two thirds of ministries ended up spending somewhere below their original allocations.

To give you some specifics around that, spending in the health care sector was very close to what was budgeted, but in fact, we spent somewhat more than was originally budgeted. Final results were up by $71 million, and that $71 million amounted to 0.1% of the planned $48.9-billion spend in the health care sector.

In this instance, the increase was in part attributed to a lower-than-projected hospital sector surplus. There were also increases in payments under the Ontario Health Insurance Plan. Some of those increases were partially offset by savings in a variety of clinical education programs and the Healthy Homes Renovation Tax Credit program; lower prices that have been negotiated throughout the year for generic drugs; and other efficiencies in Canadian Blood Services operations. Overall, it worked out to be a $71-million difference altogether.

Ms. Peggy Sattler: So for education, and children and social services?

Mr. Greg Orencsak: Sure. On the education sector expense, that was $603 million below plan. That was mostly as a result of lower-than-expected expenditures by school boards. The ministry transfers money to school boards at the beginning of the year. The results of school boards are consolidated on our financial statements. Every school board has their own auditor, and their auditors audit their financial statements. When we sum up all of the financial statements from all of the school boards across the province, overall they had spent less money than was originally budgeted. In addition to that, there were also some savings within the Ministry of Education as a result of ministry administration.

Some of the sources of the lower spending by school boards were the result of lower-than-forecast student enrolment growth. Again, school boards are large entities. They plan ahead and submit enrolment forecasts, which then turn out to be right or wrong. In this instance, the forecasts were slightly higher than the number of kids that ended up showing up in school.

In terms of the ministry efficiencies in the education sector, those were realized mainly through lower information technology costs and improved management of staff vacancies.

You had also asked about—

Ms. Peggy Sattler: Children and social services.

Mr. Greg Orencsak: The children and social services sector. Let me just—

Ms. Peggy Sattler: The $300 million.

Mr. Greg Orencsak: Okay. In terms of the social assistance and social services sector, a large component of the spending in the social services world is tied to the requirements on social assistance and payments made through the social assistance program.

The performance of the social assistance program in terms of spending by government is, in significant measure, when it comes to the Ontario Works caseload in particular, tied to the economy and the health of the job market. Again, similar to other sectors, there are forecasts and estimates made at the beginning of the year in terms of what is budgeted, and throughout the course of the year, through improved job opportunities in the labour market, that has resulted in, I think, an overall $252-million savings in children and social services. A lot of that had to do with lower-than-forecast take-up in Ontario Works and other low-income benefits, such as the Ontario Child Benefit, which is delivered through the Ministry of Children and Youth Services.

I mentioned lower prices for drugs that the government was able to negotiate under the health sector. That also has an impact on the social services sector because of the drug component of social assistance.

Ms. Peggy Sattler: Okay. I just want to make sure I have some time left.

Also on that issue, it seems like most of the difference between the projected deficit and the actual deficit was made up by the $900-million increase in income that the government got from OPG and Hydro One. Given the Financial Accountability Officer's assessment that the privatization of Hydro One is going to result in actually $500 million less on an annual basis, which could grow over time, I'm wondering what the impact of the sell-off of Hydro One is going to be on Ontario's net-debt-to-total-annual-revenue ratio.

1320

Mr. Greg Orencsak: I will start off by clarifying just one thing in terms of the revenue results for the 2013-14 year. In fact, when we reported in the public accounts, total revenues in 2013-14 were actually $900 million lower than those projected in the 2013 budget. Overall, when you add up all sources of revenue, the outcome was $900 million lower than originally planned.

I don't know if you have anything else to add on the specifics.

Mr. Gadi Mayman: You asked about the impact on the net debt to GDP. I would point out that the $900-million increase is from both OPG and Hydro One. We will still retain ownership of 85% of Hydro One and 100% of OPG. The impact of the lower ownership of Hydro One will play out over a number of years, but it could be offset. The Financial Accountability Officer mentioned in his report that he didn't look at what the potential growth is in Hydro One as a company with broadened ownership, whether that would be better or not—so that could be offset.

When we look at the debt-to-GDP ratio, it's obviously a collection of the full $300 billion worth of debt and a GDP of the province that's over three quarters of a trillion dollars. So it does play into it, but it is a small factor in determining what the debt-to-GDP ratio will be.

Ms. Peggy Sattler: In the $900-million revenues that were generated by OPG and Hydro One, what was the balance between—how much was OPG and how much was Hydro One?

Mr. Gadi Mayman: I'll start, but maybe Ronald Kwan, who is the ADM responsible for the corporate and electricity finance division, could come up and give you more details on that.

I'll start off by saying that the $900 million was an increase over the base that was forecasted; that's not the total revenues.

Ron, maybe you could give a little bit more specificity to that.

Mr. Ronald Kwan: I'm Ronald Kwan. I'm the assistant deputy minister of the corporate and electricity finance division at the Ontario Financing Authority.

I don't have the precise numbers for OPG and Hydro One with me at this time. The main reasons why the net income for the two companies was higher than originally forecast were partly with respect to lower OMA costs, in the case of the companies; partly in respect to better returns—and in the case of Ontario Power Generation's nuclear funds that they set aside for nuclear liabilities, the financial markets were doing well—and partly because of, in the case of Hydro One, better-than-expected peak demand for electricity. They are paid partly based on a peak-demand basis.

Ms. Peggy Sattler: Has it historically been the case that Hydro One has brought more revenues in than originally forecast?

Mr. Ronald Kwan: It would depend on those various factors. Weather-related electricity demand will reflect—as well, in the case of OPG and the nuclear funds, how the equity markets are doing, in particular, but also other investments that it has through those nuclear funds. Those are not items which are easily predicted in advance of what we build into the budget. Normally, in a budget, you build in projections based on normal running conditions as opposed to unusual weather events or unusual financial market returns.

Ms. Peggy Sattler: Chair, do I have more time?

The Chair (Mr. Ernie Hardeman): Yes, you have about five minutes left.

Ms. Peggy Sattler: Okay. A big section of the auditor's report talks about the electricity sector stranded debt. The report shows that the original residual debt was $7.8 billion. The government has collected $11.5 billion. So even as that residual stranded debt is recalculated—even at its peak, which was in 2004, when the residual stranded debt was estimated at $11.9 billion. If there has been $11.5 billion collected in the DRC revenues over the years, why is there still $2.6 billion in residual stranded debt? Why has it not virtually all been paid off?

Mr. Ronald Kwan: If I may respond to that question as well, as the electricity sector is part of my area of responsibility: One thing that you have to recall in the calculation of residual stranded debt—if you go back to 1999, as you were stating, the original estimate of the residual stranded debt was $7.8 billion. That was arrived at by a calculation of—the old Ontario Hydro was restructured as of April 1, 1999. The Ontario Electricity Financial Corp. is the legal successor of Ontario Hydro. It carries all the legacy debt and liabilities of the old Ontario Hydro. That amounted to $38.1 billion as at April 1, 1999.

OEFC also, at that time, had certain assets. Those assets were based on the estimated value of several of the other successor companies of Ontario Hydro: OPG, Hydro One, as well as the Independent Electricity System Operator. That amounted to $17.2 billion, leaving $20.9 billion of stranded debt.

To get from stranded debt to residual stranded debt is a calculation based on the estimated future revenues that would come to OEFC, and those estimated future revenues would include things such as the payments in lieu of taxes paid by OPG, Hydro One and the municipal electricity utilities, as well as a projection of what we call the electricity sector dedicated income, where the province dedicates to OEFC the combined net incomes of OPG and Hydro One above its financing costs on owning those companies.

That is a projection, and that projection is updated on a regular basis. The $7.8-billion estimate can go up or down, depending on whether or not those projections are right or wrong as each year progresses and whether or not the future projections of those revenues change over time. So that's one thing to bear in mind.

Another point to bear in mind is that, of course, those debts and liabilities, particularly the debt of OEFC, carry not just the principal amount that has to be paid but also the interest amount that has to be paid. If you look at OEFC's annual financial statements cumulatively over time since April 1, 1999, OEFC has had more than $30 billion of interest expense. When you think of the original estimate of the original stranded debt, which was $7.8 billion, that is, of course, updated based on those projections of future revenues, but it's also any revenues that OEFC receives, be it from the debt retirement charge or payments in lieu of taxes or the electricity sector dedicated income. It also, of course, has to pay the interest costs first. So, having received more than $11 billion in debt retirement charge doesn't mean that it all can go to just the principal amount, notionally estimated, of residual stranded debt; it also has to, as with other OEFC revenues, help pay for other OEFC expenses.

Ms. Peggy Sattler: And you said $30 billion of interest since 1999? Is that as of 2014—

Mr. Ronald Kwan: As of the end of March 31, 2015; that's right. So when OEFC first began operations following the restructuring of Ontario Hydro, its annual interest costs were almost $3 billion per year. It has reduced its debt outstanding and, as interest rates have generally come down and it has refinanced old debt maturities, the current annual interest expense is about $1.4 billion per year. But cumulatively over time, with that almost $3 billion initially and now about $1.4 billion, there has been about $30 billion in interest expense on the part of OEFC.

The Chair (Mr. Ernie Hardeman): Thank you very much. That concludes that round.

For the government, Mr. Baker.

Mr. Yvan Baker: Deputy Orencsak, Deputy Thompson, thank you so much for being with us here today. I had the privilege of working with you as a member of Treasury Board, and I just want to take this opportunity to thank you but also all your officials who are working so hard on the issues we've talked about here and working towards a balanced budget. I know a number of them are here in the room today, so thank you all for your hard work.

I'd also like to thank the Auditor General for her report. As always, you shed light on some of the really important issues that are facing us, so I want to thank you for that.

In that spirit, I want to start with page 34 of the auditor's report. The auditor shows actual and then forward-looking results, and if I think about those and I look at the far right number there, where the government is projecting a balanced budget in 2017-18—and I know the government is committed to that. Of course, a balanced budget, from my perspective, is important because it allows us to sustain the programs that Ontarians rely on and expect from their government.

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Now I think it was Deputy Orencsak, you had been talking about how, over the past four years, we held annual growth in program spending to I think it was 1.4% and we planned to continue holding spending growth to an average, I think you said, of 0.9% from 2013 through to 2017-18. I know that each fiscal year after the global recession, from 2009 to 2014, the government has over-achieved on the deficit reduction targets. I think that was raised earlier.

Could you just share why, from your perspective, it's important that the government has consistently beaten those deficit reduction targets in terms of the province's finances and keeping in mind that we're striving to balance the budget in 2017-18?

Mr. Greg Orencsak: Thank you for the question, Mr. Baker. Over the course of the last several years, we have, through successive public accounts, been able to report a better actual deficit than was originally forecast. One of the reasons that's important and material, to my colleague's earlier point, is that it has led to avoided borrowing and that has added up over time to about $25 billion.

You sit on the Treasury Board, so you can appreciate the work that the Treasury Board does throughout the year in terms of helping to keep the government on track in terms of managing its expenses against the expense targets that are set out in the budget. That is an ongoing process and is taken quite seriously. It is important for ministries to do that in order to stay within the estimates that are appropriated by the Legislature. I think all ministries take that role quite seriously.

In order to for us to be effectively able to monitor that progress, we work closely not only with Treasury Board members but ministries as well and ensure that there is a regular, consistent quarterly reporting process that helps us assess progress against the government's plans. That's important, too, because all financial plans, whether that be of governments or of households, often include savings targets. We need to make sure that those savings targets are also met throughout the course of the year. We've been successful in doing so over the last number of years. You've mentioned the top-line figure in terms of average annual program expense growth that has trended below the rate of growth of CPI inflation, for example. In each of the last six years I believe, the government has been able to manage expenses to an extent that it was able to come in below their originally forecasted plans.

Mr. Yvan Baker: One of the things that was discussed earlier, and I know it's addressed in the auditor's report, is the issue of debt burden and net debt to GDP. If I've got my notes right—and I think it was Deputy Thompson, you were referring to this—the net debt to GDP was 39.5% in 2014-15. I think you said it was expected to peak at 39.9% in 2015-16. I think that's compared to the forecast at peak of about 40.8% in the 2014 budget and 40.4% in the 2013 budget. Noting this is a key indicator, an important indicator of the government's ability to carry its debt—and basically, what it's doing, from my perspective, is assessing our level of debt relative to the size of the economy. Can you explain what the forecasted net debt-to-GDP ratio is for Ontario and why it is important? What effect does it have on the government's commitment to balancing the budget in 2017-18?

Mr. Scott Thompson: Sure, and your facts were accurate to what we said in the opening.

The net debt to GDP was 39.5% in 2014-15. It is expected to peak at 39.9% this year. It's likely to be the same next year and then start downwards from there so that we can build a path towards the goal of getting to 27%. That is compared to slightly larger numbers in previous budgets.

As we've come in with beating our deficit targets for any given year, that lowers the debt that's added. Since debt-to-GDP ratio is really just a measure of two factors—one is the net debt and the other being economic growth in the form of GDP; those are the two variables that are in play, so reducing anything that adds to that debt, in this case the deficit, helps to do that.

The other half of that is continuing to grow the GDP so that the denominator—do I have that right, debt to GDP?

Mr. Gadi Mayman: Yes.

Mr. Scott Thompson: —the denominator in that equation is getting bigger and therefore the number that comes out the other end is getting smaller.

The importance of continuing that downward trend is multiple, and I'll let Gadi add to that. But from our perspective, one of the most important signs of reducing that number is that you're managing your deficit; you're bringing that under control. That amount that you are adding to the debt is not because you're spending more than you're taking in, but because you are building. Infrastructure will add to the debt, but that is part and parcel of the government's plan to grow the economy. So that is better debt, I guess I might say, than deficits adding to the debt.

Gadi, did you want to add anything in terms of the importance of that and trying to manage down that number?

Mr. Gadi Mayman: Certainly. Thank you, Scott.

The net debt-to-GDP ratio is one of the key financial indicators that we have. In the Auditor General's report in chapter 2, on pages 37 and 38, she has listed a number of other indicators, of which net debt to GDP is probably the most important, because net debt to GDP represents the affordability of debt. Obviously, the smaller the GDP, the less we can afford; the same way as the less our income is, the smaller a house we can afford to have. That's why it's a key indicator.

What's really important in reducing and why the government has a target of getting back to 27% is to give the flexibility, in times when the economy is bad, to be able to spend money in order to help out at those points in time. If it only goes up, then levels off and doesn't come back down again, it puts the province in a worse position the next time there's an economic downturn. So that's why it's key.

As the deputy had mentioned, and as I spoke about in my introductory remarks, the key plank to getting there is to first balance the budget and then to ensure that the expenditures that do result in increased debt in the future are for capital investments, which will help the growth, which will make the economy bigger, which will give us more revenue, which will allow us to pay for future programs.

Mr. Yvan Baker: Great.

Chair, with your indulgence, what I'd like to do—I have one more question, and then if I could pass it on to some of my colleagues. How much time do we have?

The Chair (Mr. Ernie Hardeman): You've got about 10 minutes.

Mr. Yvan Baker: Ten minutes? I'll be brief. I'll ask a quick question, if that's okay.

Mr. Arthur Potts: There's another round after this, too.

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Mr. Yvan Baker: Okay. Great.

We talked a little bit, and the auditor obviously spent significant time here, about program spending. When I first aspired to be an elected official, one of the things that I found interesting was to discover that Ontario has the lowest per capita program spending of all the Canadian provinces.

Going back to figures, I think we talked earlier, Deputy Thompson, about, over the past four years, our government, I think, has held annual growth in program spending to 1.4%. Sorry; it was Deputy Orencsak who spoke about that. I know that we planned to hold spending growth to an average of 0.9% through the balance of 2017-18, which gets us to the balanced budget figure that's on page 34 of the auditor's report.

Can you just talk a little bit more about how the government is controlling spending and reviewing spending through program renewal, review and transformation?

Mr. Greg Orencsak: Sure. Let me take that one. Program review, renewal and transformation is a new approach that the government launched last year to support multi-year planning and budgeting.

As the name suggests, it's really an opportunity to look at better ways of achieving outcomes and a smarter way of doing things while also ensuring that the government is in a position to make choices to deliver the best value for Ontarians while also keeping in mind the government's financial targets.

It is a government-wide process. It's premised on looking at all the programs that government currently runs or supports, and asking four fairly fundamental questions as to whether the programs are relevant in terms of there being a role for the government to fund or deliver them. To the extent that programs exist, are they achieving outcomes in the most effective way possible? To the extent that we're delivering programs, are we doing that as efficiently as we can? If we benchmark ourselves, for example, to other jurisdictions or compare different ways of delivering services, are we choosing the most efficient means of delivering that service? The fourth fundamental question is whether programs are sustainable. If you think about longer-term aspects of providing public services, are we considering future demographic demands, for example, when it comes to a particular program or service?

That's a pretty powerful filter through which to view programs. It's also important that that's being done on a consistent government-wide basis.

I think the government has had some success. This is obviously tough slogging. I think the government has acknowledged that there are tough decisions that it will need to continue to take.

We also have a track record of successful transformational initiatives to look back on. Just to give you a couple of examples: Reforms and changes to how the government funds and administers public drug programs have resulted in fairly significant savings over time, now amounting to on the order of $500 million a year.

Transforming the youth justice system has also been an important area of progress in terms of helping to divert lower-risk youth in conflict with the law away from institutions to more effective community-based programs, which has really helped reduce the rates of youth crime recidivism, which in turn has a beneficial impact on the costs of running and administering the youth justice system, for example.

The Chair (Mr. Ernie Hardeman): Mr. Fraser.

Mr. John Fraser: Thank you very much. How much time do I have?

The Chair (Mr. Ernie Hardeman): You have about four minutes left.

Mr. John Fraser: Four minutes? Okay, great.

Thanks very much for being here today. I just want to refer to page 41 very quickly, about our credit rating. In 2015, after the budget, the four agencies updated their outlook and their rating, I should say. One of those agencies, Standard and Poor's, downgraded us. Can you tell the committee what material impact that is going to have on the province's finances?

Mr. Scott Thompson: Sure.

Mr. John Fraser: In the short and the long term.

Mr. Scott Thompson: This is really speaking to Gadi's core business, so I will turn that over to Gadi.

What's important to know is that credit ratings are one of a bunch of things that may be taken into consideration that contribute to the borrowing costs. I'll let Gadi expand a little bit on what some of those other things are, and specifically on your question.

Mr. Gadi Mayman: Thank you, Deputy. As the deputy said, credit ratings are an important component of measuring the province's creditworthiness, but there are other measures, I would suggest, that are equally or even more important. The most significant of those is how investors respond—the people that buy our bonds. We go out and we issue debt on a regular basis. Last year's borrowing program was over $39 billion. This year's borrowing program is about $31 billion.

What I would point out is the receptivity of the debt: the fact that investors, both domestically and internationally, have been very avid buyers of Ontario debt. That has not diminished at all with what has happened with the credit ratings. As a matter of fact, we were downgraded by S&P on July 5, I believe it was. Through the remainder of that month, we borrowed over $4 billion, and our spread, the amount of interest that we pay over the government of Canada rate, actually declined by a basis point over that month, even though we had borrowed over $4 billion. That has continued; the receptivity of our debt versus others' has continued.

What we have seen during July was something a little bit special, in that our spreads came in. In August and September, our spreads moved out, but that had nothing to do with the credit rating, because every other province moved out by more than what we did. That was due to global financial events. It started off with what was going on with Greece, when people thought that Greece was going to default and have to leave the euro. That affected our spreads. Then, probably more important was what was going on in China, and concerns about how the financial situation in China have caused things. Again, these things have more of an impact on what our cost of borrowing is than what happens with the rating agencies.

Just to put some numbers on that: In April 2012, Moody's downgraded the province's debt, and our 10-year spread at that point was 100 basis points, a full per cent. We paid 1% more than the government of Canada did for 10-year bonds at that point.

By the time we got to July 2015, when S&P did the downgrade, that spread had come in to 76 basis points. In other words, in spite of the downgrade by Moody's, investors were more interested in buying our bonds, at a more expensive price and a lower interest rate for us, than they had been. As I mentioned earlier in my answer, the same thing happened in the month after S&P had downgraded us.

Rating agencies are important. We don't in any way neglect what they're saying. But we look at them as a reflection of what investors want to do.

The Chair (Mr. Ernie Hardeman): Thank you very much. Hold that thought for the next round.

The second round will be about 18 to 19 minutes each. With that, we'll go to Ms. Munro.

Mrs. Julia Munro: Thank you very much for coming today. I appreciate you being able to make the time and share your expertise.

I have a couple of questions with regard to the whole notion that has been mentioned by different people throughout the afternoon about growing the economy. If I were to ask my constituents what things they thought helped grow the economy, one of them would be that a business has to make a profit, because that's the only way that you are then obliged to pay taxes.

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Another would be the question of energy costs and the impact that has. Another would be the question of the burden of red tape and the kind of regulatory burden that continues to grow. What my constituents think in those cases is that that's non-billable time. That's time that they have to accommodate, and as it grows, obviously, it makes the potential for growing a profit that much more difficult.

When you talk about growing the economy, you talk about capital assets. What would form the basis of your analysis of how much a capital asset actually contributes to the economy? If you say one kilometre of road or three bridges, what is that equal to?

Mr. Scott Thompson: I'll go back to the remarks I made at the outset, Ms. Munro. I'll just refer to a recent report—we can send you the source for this—that found the impact, the multiplier effect, of investing one dollar in infrastructure. It referred to that one dollar raising GDP by $1.43 in the short term, so already a one-and-a-half-times multiplier, and up to $3.83 in the long term.

I think that even beyond the shorter-term impact of creating jobs by having new capital building programs, construction, the trades and the related industries that go along with those, there is a longer-term impact on the economy. You're talking about some of the input costs for business and industry. Some of the input costs are created or exacerbated by the difficulty in moving goods around. Certainly the ability to have new forms of transportation—whether it's a new bridge, a widened highway, what have you—or, in fact, some of the transit spending which would serve to not move the goods—not as important to industry—but certainly moving those cars off the road, providing more space for the goods and the trucks to move is important to them.

By focusing on that, I didn't want to suggest that the other pieces that you mentioned weren't important. The other things that we've done in terms of our corporate income tax rate, the elimination of the capital tax, the move to a harmonized sales tax and business tax reductions are all a package, as well as reducing the regulatory burden that you mentioned. They are all pieces of the package that we are creating and that we've talked about in both of the last budgets, to create a more dynamic business environment.

Mrs. Julia Munro: The other aspect of any capital investment is, of course, the operating expense. Particularly, I think, at the municipal level, this becomes more of an issue. What weight do you give to that in growing the economy? "This is going to require maintenance. This is going to need upkeep," and so forth. How does that figure into the overall growing of the economy?

Mr. Scott Thompson: Certainly it's an important part of our Moving Ontario Forward plan that the infrastructure that we're building needs to be maintained and operated. In terms of growing the economy, creating those facilities creates the need for operators' jobs and maintenance. Those are all important jobs that contribute to the economy.

I think the other aspect to your question, that you may have been asking about, was the responsibility for that maintenance. Some of the infrastructure and capital projects that I referred to are provincially maintained; others that the province is contributing towards are municipally maintained. That's part of an agreement that we need to come to with the municipalities: how those are going to continue to be maintained and where the funding comes from to do that. But I think the critical piece of this is to make up for some of the lost time in terms of upgrading and building facilities, and maintaining them back to the condition that they were in, in order to provide that kind of confidence and increase capacity in our key transportation routes.

Mrs. Julia Munro: The final question on the growing-the-economy side: What happens, then, when you sell it?

Mr. Scott Thompson: Sell what?

Mrs. Julia Munro: The capital asset.

Mr. Scott Thompson: If you're referring to our asset plan—the $5.6 billion, I think it is. Well, it depends on what it is, whether it's Hydro One or whether it's—some of our asset plan is referring to—part of it has been sold already. That was the GM shares. That was part of our asset plan. Another part of it is our real estate assets. Hopefully, selling real estate assets that the government no longer requires will allow for some productive use to be made out of that land or buildings—redevelopment, potentially, which could help add to economic growth.

The issue on the Hydro One side of things is really related to the management of the government's overall assets. It sees the assets that it has, and it sees the assets that it wants to create through building and an infrastructure plan, and deciding that the most productive use of a portion of that is to broaden the ownership of Hydro One and use the funding that you create from that to put into new and renewed infrastructure and, therefore, stimulate that economic growth.

Mrs. Julia Munro: I have another set of questions. This relates to the ORPP: In the budget document, it says—I don't have the page—balanced budget for Ontario in 2017-18. It says the ORPP will reduce the amount of general revenue—

Mr. Yvan Baker: A point of order, Chair. Is this relevant to the Auditor General's report? It doesn't seem that we're referring to the Auditor General's report in the question.

The Chair (Mr. Ernie Hardeman): The member will know we're dealing with the Auditor General's report, and I'm sure we'll get back to that.

Mrs. Julia Munro: Thank you—because it will have a direct funding arrangement with the ORPP. That's appearing in the budget document.

The other question I have that's related is on the question of the loss of government revenue, given that the 1.9% is pre-tax. Does the government know what kind of loss there is through that channel?

Mr. Scott Thompson: I have to apologize. I have staff who are dedicated to the Ontario Retirement Pension Plan, but they're not with me here today, because that was not covered in the chapter. So I'm really not able to give you those kinds of details here.

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Mrs. Julia Munro: My last question is more of a commitment that I would like—because I have you here. That's the issue of split pensions. The Legislature passed unanimously—

Mr. Yvan Baker: Chair, again on a point of order. Again, the previous question wasn't relevant to the Auditor General's report. This one doesn't appear to be either.

Mrs. Julia Munro: I have one line—

The Chair (Mr. Ernie Hardeman): Excuse me; it's not a point of order. The time is allotted evenly to the members, and they can ask the questions they want. As was just shown, the delegation has every opportunity not to answer if they don't believe it relates to the expertise that they're presenting here today.

Mr. Yvan Baker: I understood that today we were here to discuss the Auditor General's report.

Mrs. Julia Munro: I just wanted to put on the record that there are probably a few thousand people that are impacted by it and to encourage the government to look to an opportunity to close the gap for them. Thank you. That's it for me.

The Chair (Mr. Ernie Hardeman): Further questions? No further questions? We'll go to the third party.

Ms. Peggy Sattler: Thank you very much. I wanted to get back to the auditor's update on the electricity sector stranded debt issue. We know that the residential debt retirement charge is coming off in 2015, at the end of this year, and that the 2014 Ontario budget said that the goal is to remove the debt retirement charge from Ontario businesses by 2018.

When I look on page 46, at the year-over-year reporting on residual stranded debt and overall stranded debt, there's some variability in the residual stranded debt. In particular, I'm looking at 2003-04, when there was a big spike, and then 2010-11, when, again, the residual stranded debt increased. It didn't decrease. Can you tell us more about what the plan is to ensure that the debt will be removed from Ontario businesses and industries by the end of 2018? What are you doing to ensure that that debt continues to go down so that Ontario businesses can be confident that they won't have to continue paying that at the end of 2018?

Mr. Scott Thompson: I'll say a couple of things. Then I'll turn it over to Ron, who can fill in some of the more technical aspects of that question, if I might, Ms. Sattler.

One of the important things to know about the calculation of the residual stranded debt is that there are lots of variables in play. There are ups and downs, ins and outs, related to what Ron described earlier as being what projected future income might be, or other benefits that may increase the amount that can be attributed back to the residual stranded debt. It's all a projection. It's all built on assumptions and different scenarios for those variables.

I think this debate was added to by the Financial Accountability Officer's report of last week, where he looked at the residual stranded debt and the debt retirement charge. He noted the number of variables in play. It's a fairly complex formula that gets us to that number every year. His analysis, even with different valuations—a high valuation or a low valuation—still was getting to the point where he didn't see the debt retirement charge eliminated by 2018. However, the government has stated that that is its projection. Based on what we knew when we did the 2014 fall economic statement and the 2015 budget, we were still thinking that that was about the right time frame for it.

The government committed to the residential side being gone by the end of this year, and I think we're still hopeful that 2018 is the right time frame for the remainder of it to be gone. Do you want to add to that, Ron?

Mr. Ronald Kwan: I can say a few words in terms of perhaps providing a little bit more input into why there was that variability in the chart you're looking at, if that could help provide some context about that uncertainty or the changes in projections over time.

One of the reasons why the residual stranded debt was increasing during that period up to March 31, 2004—there are a number of reasons. One reason was that the government had put in place a price freeze of 4.3 cents per kilowatt hour; you may recall that it announced that in November 2002. That price freeze was in place for several years. The difference between the actual cost of generation and the price being charged to consumers was then picked up by the Ontario Electricity Financial Corp. That contributed, to some extent, to the increase in stranded debt and the increase in residual stranded debt.

The residual stranded debt is also affected by those projections that the deputy was just speaking about and I spoke to earlier in general. But I think a little bit of that context of what happened in the first half-dozen years or so of the existence of the OEFC—part of that is the projection of future payments in lieu of taxes, and part is the future performance on the net income side of OPG and Hydro One.

In that period, with respect to payments in lieu of taxes, for example, back on April 1, 1999—I'll give you an example. The combined federal and corporate income tax rate that Hydro One was paying was close to 40%. There were a number of reductions in the corporate income tax rate that lowered that. The current combined corporate income tax rate is about 26.5%. That, in many ways, is a savings to ratepayers because Hydro One passes on its tax costs through its regular rates, but then, of course, the revenues of OEFC were down in actual terms over time but also by that projected future amount of payments in lieu of taxes. In that calculation between stranded debt and residual stranded debt, it lowers that present value of future revenue streams estimated. That increases the amount of residual stranded debt, holding other things constant. That has to be paid by the debt retirement charge.

One thing that I think provides more stability going forward in comparison to that is that tax rates have been more stable in recent years, so we haven't seen that spike in the past. Another thing that has not been—the price freeze expired after 2004-05. Another aspect that helped to stabilize results compared to that early period and the future period is that Ontario Power Generation was selling power as an unregulated utility. With the restructuring act of 2004, OPG became partly rate-regulated. More recently—a couple of years ago—it became fully rate-regulated. Part of its hydroelectric production was unregulated up until last year.

That has also provided more stability, but one of the issues that arose in the first half-dozen years or so of OEFC was that the projections of those future revenues coming from OPG and Hydro One, either from net income or payments in lieu of taxes, had to be scaled back, partly because OPG wasn't performing as well and partly because of those reductions in tax rates.

Those things, we, of course, have to take into account going forward; those things, the Financial Accountability Officer has to take into account in his projections he provided in his report a week or so ago. We have our own estimates of those projections; he has his estimates. As we were talking earlier about projections, there are always going to be different forecasts of what's going to happen into the future. There is that remaining amount of uncertainty going forward, but as the deputy was saying, the government has said and we are still saying that our estimate for the debt retirement charge for the remaining non-residential electricity consumers—that would still end by the end of 2018.

Ms. Peggy Sattler: Will there be forecasted targets for how much that debt retirement charge will go down in 2016, 2017 and 2018?

Mr. Ronald Kwan: In terms of the residual stranded debt, there is a requirement under regulation 89/12 that was put in place in 2012 for the Minister of Finance to provide an annual determination of the remaining residual stranded debt. Following the 2014 annual report of the Auditor General—this graph shows that the residual stranded debt as at March 31, 2013, was $3.9 billion.

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About a week prior to this coming out, the province had put out the fall economic statement of 2014, in which there was the revised residual stranded debt determination that was estimated as of March 31, 2014, at $2.6 billion. The estimate as of March 31, 2015, under that regulation, has to be provided publicly by the year-end, March 31, 2016.

So, as stated in the 2015 budget, that is one of the things that the ministry will be doing, providing its next annual determination of the residual stranded debt. That will continue on each year, to provide that update under that regulation.

Ms. Peggy Sattler: Okay. I want to turn to the section on the ratio of net debt to total annual revenue, on page 38. The auditor points out that the ratio has increased steadily since 2007-08. It's expected to top 245% by 2017-18. It goes on to say that the increasing ratio of net debt to total annual revenue indicates that the province's net debt has less revenue to support it.

Given the FAO's report that there is going to be a further loss of revenue of $500 million per year with the 60% sale of Hydro One, I'm interested in knowing your thoughts on how the sell-off of Hydro One will affect this net-debt-to-total-annual-revenue ratio.

Mr. Scott Thompson: I guess one thing I'll point out is that the numbers are slightly better. I think now we're reporting 241% or 242%, compared to the 245% that was in this report, by 2017-18.

The Hydro One revenues are important, but they're still a relatively small piece of the overall revenue puzzle. Revenue for the province is in the order of $120 billion. I think it's part and parcel to what we discussed earlier. Some of the FAO's assumptions and predictions on revenue from Hydro One are predicated on kind of a straight-line projection, as opposed to the ability of Hydro One, in its new form, to create some growth above his assumptions. We wouldn't necessarily use the same assumptions.

Also important is the fact that the first tranche of this is 15%. After this, we'll still own 85% of the entity and therefore still get 85% of the revenue.

Did you want to say anything more about debt to revenue, Gadi?

Mr. Gadi Mayman: Sure. Net debt to revenue is one of the other important financial indicators that we look at. We've talked a lot at the committee this afternoon about the net debt to GDP. Net debt to revenue is another way of looking at that, and it's certainly one that we look at, and that rating agencies and investors look at regularly when they look to buy our bonds.

Just to add a few more numbers to what the deputy has just talked about, on page 265 of the 2015 budget, which you may or may not have in front of you, the growth in revenues that we forecast is quite substantial. We had interim numbers of $118.5 billion in 2014-15—I forget the exact number in public accounts, but it was in that region—growing to $124.4 billion this year, so an increase of $6 billion, with another $5-billion increase in revenues next year to $129.4 billion, and another $5 billion to $134.4 billion. So, as the deputy had mentioned, the impact of lesser revenues from Hydro One will be more than offset by increases in revenues from the growth in the economy.

Ms. Peggy Sattler: I want to ask a question. You raised the provincial bonds. I wanted to ask about the auditor's comment that foreign investors will purchase provincial bonds because of the high credit rating for the federal government, so Ontario benefits from investor faith in the federal government's debt. Given that, with the new federal government we know that there are plans for increased deficits over the next few years, what's your assessment of how this will affect investors' willingness to buy Ontario's debt? Do you anticipate any impact on Ontario's debt level?

Mr. Scott Thompson: Let me just start. I think I've sat with Gadi at many credit rating agency meetings and with him at many investor meetings as well. I would say that, as a subnational, with Canada being part of the mix here, some credit rating agencies will take comfort from that and others will not and they will judge you sheerly on your own fiscal performance and your fiscal plan.

I think it's one potential positive factor. I don't think that the change in government in Ottawa is going to sway a credit rating agency's opinion on whether the federal government would be there in support of the province. As I said, I'll go back to saying some don't consider that variable at all. Some do, and even if they do, I don't think it's a big part of their consideration in determining what the rating is for the province.

Mr. Gadi Mayman: That's an absolutely fair comment. The other point that I would make—you had talked about international investors—we set a target each year, which we lay out in the budget, as to how much of a borrowing we want to do domestically in Canada, with the remainder being done internationally. This year, we raised the target to 75% domestically from 70%. We think that we'll easily be able to achieve that. As of right now, as of the end of October, in the neighbourhood of about 88% of our borrowing has been in the domestic market.

International investors are important to us. It's important for us to be able to access markets outside of Canada, but our key marketplace is within Canada. One of the things that we have seen over the past number of months, a year or so, has been increased demand within Canada for Ontario bonds relative to other provinces. We've seen that reflected in the spreads that we pay; the amount of interest rate we have to pay over the government of Canada bond has been reduced relative to what other provinces have been paying.

Ms. Peggy Sattler: So is the debt-reduction plan based on that continued demand for people to purchase Ontario's debt? What happens if the demand for Ontario's debt shrinks?

Mr. Gadi Mayman: That's something that, in my role, I'm paid to worry about all the time, that, "Gee, are we going to be able to borrow the money?" It doesn't have a direct impact, to answer your question, on the debt-reduction plan or the net debt to GDP. What it has an impact on is our ability to actually finance ourselves, to have the money to be able to pay for the services, to pay for the goods, to pay for the infrastructure.

What we do at the Ontario Financing Authority is we build in a number of protections or buffers that we have so that we carry a high degree of what we call liquid reserves, which for a normal person would be the amount of money that we have in the bank for a rainy day. Before the financial crisis, the amount of liquid reserves that we would carry would be in the $6-billion to $8-billion or $9-billion range. Since then, we've gone to over $20 billion that we keep in liquid reserves and that's so that if we run into a situation due to a problem with Ontario, or more likely a problem that is more global like the financial crisis, where it's difficult to access markets to borrow money, we have enough money sitting there that we can actually continue to pay the bills.

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We also have a short-term borrowing program. We issue what are called treasury bills in Canada, or commercial paper in the United States, which is money that we're borrowing for less than a year. We have a program that we are nowhere near the capacity of. Again, that's another means that we have of continuing to be able to borrow in difficult circumstances.

We haven't had to dip into that over the last number of years—we've had very receptive markets—but we're always prepared for that to happen.

The Chair (Mr. Ernie Hardeman): Thank you very much. That concludes the time.

We'll now go to the government: Mr. Potts.

Mr. Arthur Potts: Thank you, gentlemen, for being here today. It has been a most enlightening discussion so far. I very much appreciate it. I'm back to my Eco 101 and commerce days at university, but I'm catching up as fast as I can.

What I want to do is reflect on some of the initial comments you were making, Deputy Minister, about risks and prudence—prudent measures that are taken to manage risk. It reminds me somewhat of another university text I read, Machiavelli's The Prince. We all know that Machiavelli had a lot to say about the Medici princes, not just about the ends justifying the means. There's a whole section there, a chapter, "Fortuna," in which he makes the argument that a successful prince must be lucky. Then he goes on to say that the most successful princes make their own luck. What it's all about is successfully managing risk.

You've talked a little bit about some of the prudent measures. I was going to ask you initially about what the take-up is on Ontario bonds, and you've answered it very effectively: that, apparently, we're still very attractive. People are continuing to invest in Ontario, and that's great.

Then I was going to ask you about our credit ratings, and that question was asked as well. The relationship we've had with the credit agencies—to correct the record, for the member opposite, who was saying that there's continuous sliding: That just isn't the case. Three of the four credit agencies have held absolutely stable. Notwithstanding some downgrading, we've talked about how our basis points are even shorter, so our borrowing costs are limited. There have been some prudent measures in that regard.

Then I was going to ask about the asset sale management plan, and, of course, we had that discussion as well. A lot of these issues have been covered off.

I think you may be turning the members opposite over to being supporters of the plan, because with all the questions about debt and debt retirement issues, and the debt-to-GDP ratio—obviously, repurposing assets in a way that's more purposeful is probably a better longer-term plan for managing these operations.

One of the things we have been somewhat lucky about has been low interest rates. I know that the auditor has flagged, in her report, how it puts us at increased exposed risks. Maybe we could talk a little bit more, not just about interest rates but any other prudency measures that you'd like to discuss, about how we are continuing to manage borrowing and our debts and our obligations in a prudent way, to getting to balance and managing those financial risks.

Mr. Scott Thompson: I can't match you on your eloquence in terms of the literature references. I guess I'd use a sports one and say that it's better to be good than lucky.

Mr. Gadi Mayman: You've got it backwards.

Mr. Scott Thompson: Oh, darn. That's my Yogi Berra moment, I guess.

I'll talk a little bit about prudence, and then maybe Gadi can talk a little bit more about interest rates.

We've included prudence as part of the fiscal plan perennially in order to help ensure that we meet our future fiscal targets as we move towards a balanced budget. It's important to have some flexibility built in. In fact, the Fiscal Transparency and Accountability Act, FTAA, requires us to incorporate prudence in the form of a reserve in order to protect the fiscal outlook against adverse changes in the province's revenue and expenses, including those resulting from the challenges and changes in the economic performance compared to what was predicted.

The reserve has been set at $1 billion for this fiscal year, 2015-16, and set at $1.2 billion in each of 2016-17 and 2017-18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

I'll come back to something that we mentioned a couple of times, but it's an important part of prudence. It's an important part of accountability but also an important part of prudence, and that is that we base our revenue projections, our economic projections, not just on our own internal thinking but on what others think. Private sector economists will tell us several times a year what they are projecting for the economy. We use their assumptions as a base. We generate an average from that and then we discount it again, in order to be even more prudent, to build in some flexibility for maybe not hitting that revenue outlook.

We also test our assumptions with them. I think we've done very well so far in testing our assumptions and our predictions for future growth with them as we go.

Any more on interest rates?

Mr. Gadi Mayman: Yes, I could add a little bit on interest rates. We also build prudence into our interest rate forecast. As the deputy had talked about on the revenue forecast, we do the same concept with the interest rate forecast, our interest-on-debt forecast. What we do is we take the private sector consensus of where interest rates are expected to be—government of Canada interest rates, because they don't forecast Ontario interest rates. We take that consensus; we then add our forecast of what our spread is going to be and we add a little bit of prudence to that; we move that up a little bit. We use that for when we do the budget for the year upcoming and the year after—for two years.

What we do after that is we take an even more prudent forecast because we say that the idea of predicting where interest rates are going to be three months from now, never mind three years from now, is a little bit hard to do. So we'll just use an historical base as our base for this. What we do is we look back and we look at what the average Ontario interest rates have been over the last 15 years. We then take that number and we use that as our interest rate forecast for the out-years, for the third year and beyond.

In doing that, we put that into a model that we have as to what terms of debt we're going to issue—how much five-year debt? How much 10-year? How much 30?—and that model then comes up with a number which is our interest-on-debt forecast.

There is enough prudence that is built in there that, over the last 20-some-odd years, every year in public accounts our interest-on-debt amount has been below what that forecast was. So we build some prudence in there.

In terms of the actual operation of the program itself, the actual borrowing that we do, the way that we built in some protection for what we expect to be higher interest rates in the future—because they're at historic lows; they have been at historic lows for a number of years now; they can't stay there forever—what we've done is, we've extended the term of our debt. I mentioned that in my opening remarks. Over the last five and a half years, since the beginning of fiscal 2010-11, we have issued almost $52.5 billion worth of debt that's 30 years or longer. I'll go back to the mortgage analogy that I used a little bit on the DRC. What that means is it's like a fixed-rate mortgage. If interest rates go up, we're not going to have to immediately pay those extra costs. We've locked in those rates.

Those are the types of prudence that we build in on the interest rate side in combination with the prudence that the deputy talked about on the revenue side.

Mr. Arthur Potts: Great. I noticed in the auditor's report—the same page: 34—two things. One is, there was an expectation back then that interest rates were going to rise, and I think we've seen the opposite. All experts get it wrong sometimes. I know that my mortgage that I just refinanced is at the lowest level I've ever seen possible. It's quite extraordinary.

One of the uncertainties we face on a regular basis is federal transfers. We talked a little bit about it. I think that our public accounts statement outlines where the government of Canada has not made the transfers to Ontario that were directed in their budget. I think in our document here we indicate that it's about $200 million below. Could we talk a little bit about that? I believe there was $54 million just in medicine alone, in health care transfers, that we didn't see and were expecting to see, because of revisions at the federal level.

Mr. Scott Thompson: That's a pretty complex relationship. Let me talk about three different things there. One is the relationship of what ends up being a very significant part of our revenue, and that's taxes. As you know, the bulk of taxes is collected federally and then we have to wait and see what the results are going to be. In many cases, certainly with corporations tax, there's a big time delay between when the federal government will do a projection and pass on to us in instalments what they expect the amount to be based on historical averages and what they see happening. But by the time a corporation will end up doing their taxes, submitting them, taking whatever kind of losses, often what we end up with is not what we expected. I think there are references in all of these documents to situations where the corporate tax didn't end up being as solid, as robust, as we had hoped or expected it to be. So that's one kind of relationship with the federal government.

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The other one is on things like equalization. So there, we do every year get an amount in equalization. We have not been perhaps as positive a recipient of that in some years as we had hoped. Again, we sometimes get a shock in-year that we weren't expecting. As we're making our fiscal plan for the next year, they tell us what our equalization payment is going to be and that sometimes is less than we were counting on. That's another relationship.

The other one that may play more into a changing relationship and a piece of your question, Mr. Potts, is related to things like health care transfers and infrastructure. Some policies that may be made in Ottawa can have significant effects on our fiscal plan because they are either helping to fund things that are important for our budget, like infrastructure, or they're taking on a greater share of expenditures that may be already built in to our plan, like health care.

Mr. Arthur Potts: Have we got time left?

The Chair (Mr. Ernie Hardeman): You have about eight minutes left.

Mr. Arthur Potts: Eight minutes. Good.

Interjection.

Mr. Arthur Potts: You can start; I've got more to go. Go ahead.

Mr. John Fraser: Just very quickly: On page 47, the Pension Benefits Guarantee Fund is briefly mentioned in this report. There was a section in the last Auditor General's report and we also discussed this at committee. I know that it's a fund that is unique to Ontario and I know from some local experience that it was with the demise of Nortel that it was an important thing for a number of people in my community; that supported them.

Because what's in the report here is a bit mixed, can you give us an update on where the Pension Benefits Guarantee Fund is at?

Mr. Scott Thompson: The status of the PBGF account, I believe—in fact, I think the Financial Services Commission of Ontario was here earlier this year and talked a fair bit about the PBGF and other elements of their work. The balance in that is somewhere up in the $500-million to $600-million level.

It is, Mr. Fraser, a type of an insurance plan; right? Companies pay into this and, as you noted, we're the only province in the country to have this kind of a backstop should a pension plan go under.

Leah, I'll ask you to speak to the level of support that it provides in those circumstances.

We have been building it up. There was the Nortel situation, of course, in 2010, I believe. We have taken several measures to try to improve the amount that's in the balance there, including increasing the rates that are charged to plan members. It covers about 750 plans in Ontario and a million plan members.

We made important reforms to the PBGF in 2012 to try and create that kind of sustainability that you're talking about. Because if you intend to have it there as an insurance plan, then we want to make sure that it's there when it's needed. We hope it is never needed in the first place, but certainly there are cases, and FSCO is always monitoring those, trying to anticipate where those situations may occur.

But in 2012, we raised the base fee from $1 to $5 per beneficiary, we raised the maximum fee per member from $100 to $300, we eliminated the $4-million cap, and we introduced a minimum fee of $250 per covered plan. Those changes significantly increased the PBGF revenues and enhanced the sustainability. In the last fiscal year, prior to the new fee structure, the PBGF premium revenue receipt was $48.4 million, but there have been significant improvements since that time that have helped with that whole sustainability question.

Leah, can you add—

Ms. Leah Myers: Certainly.

Mr. Scott Thompson: You almost made it, Leah.

The Chair (Mr. Ernie Hardeman): If you could introduce yourself for Hansard.

Ms. Leah Myers: My name is Leah Myers, and I'm the assistant deputy minister of the income security and pension policy division at the Ministry of Finance.

I think the deputy covered off much of what there is to say about the current status of the PBGF. It does have total assets as of March 31 of $543 million, and it's based on those assets that it manages the claims that it receives. It does have some outstanding claims to take into account, so it has a surplus of about $372 million, all told.

As well, to underscore your point that it is the only fund of its type in Canada, what it does is, based on the funded status of a given pension plan when it winds up, it ensures that members get the full first $1,000 to which they would be entitled. Anything over $1,000 is discounted based on the funded status of a plan. So, briefly, it guarantees the first $1,000 per month of a pension benefit.

Mr. John Fraser: Thank you very much.

Mr. Scott Thompson: I guess I would add that I know this is a subject of continued interest from the Auditor General. In the 2014 report, the Auditor General recommended that the Financial Services Commission of Ontario assess the PBGF and use the information to recommend further possible changes to address the sustainability. So, as I think you're sensing from our answers, the sustainability of that is always an issue for us. We want to put it in the best possible situation so that it is sustainable and it is there.

FSCO may have mentioned, when they were here in March, that they are reviewing the PBGF. They will always consider what enhanced analysis can be done in order to improve the monitoring of the fund and incorporate expanded disclosure of its financial risk exposure on that front.

Mr. Yvan Baker: What's the time remaining?

The Chair (Mr. Ernie Hardeman): You have about half a minute left.

Mr. Yvan Baker: Half a minute left? Okay, I'll be brief.

In the auditor's report, there's a lot of reference—we've had a lot of discussions about debt, and a big component of that, as you referred to, Gadi, is around funding infrastructure investments.

What's not in the scope, I guess, of the auditor's report is the impact the infrastructure investments have on our economy. Do you agree that that's an important element that we should be looking at? Is that something that you look at as being important for us to look at as we think about the value of infrastructure investments going forward?

Mr. Scott Thompson: Yes, absolutely. If I understand, Mr. Baker, both the short-term dividends that are created by infrastructure investments in terms of jobs and the longer-term dividends of the infrastructure being dependable, safe and accessible, and the ability to create new opportunities for business and industry to locate here—I mentioned investment trips. Some of the investment is about talking about all of the conditions for success and economic growth that exist in Ontario. A big piece of that puzzle is infrastructure, and encouraging business to locate here, or encouraging business that is already here to export and create growth. It depends a lot on that infrastructure investment.

The Chair (Mr. Ernie Hardeman): That's a wonderful place to end it. Thank you very much for your presentation and the time you spent here to help us with our review of this section of the auditor's report.

We'll go into closed session for discussion on further action of the report.

The committee continued in closed session at 1440.

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