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Select Committee on Financial Transparency

Comité spécial de la transparence financière

1st Session
42nd Parliament

Tuesday 23 October 2018

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Mardi 23 octobre 2018

Chair: Prabmeet Singh Sarkaria
Clerk: Valerie Quioc Lim

Président : Prabmeet Singh Sarkaria
Greffière : Valerie Quioc Lim

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

SELECT COMMITTEE ON FINANCIAL TRANSPARENCY

COMITÉ SPÉCIAL DE LA TRANSPARENCE FINANCIÈRE

Tuesday 23 October 2018

Mardi 23 octobre 2018

The committee met at 1500 in room 151.

FINANCIAL ACCOUNTABILITY OFFICE OF ONTARIO

The Chair (Mr. Prabmeet Singh Sarkaria): Good afternoon. The Select Committee on Financial Transparency will now come to order. I welcome our panel here today. I will give you a brief 10-minute introduction. We will then go into 20-minute rounds of questioning, starting with the official opposition.

Before I do that, I just wanted to read out a statement of parliamentary privilege that we've been doing. I know that all of you are parliamentary officers, so I don't need to. But for the record, I want to. Except for, I believe—what is it?

The Clerk of the Committee (Ms. Valerie Quioc Lim): One person.

The Chair (Mr. Prabmeet Singh Sarkaria): One person who is no longer with the office. But just for the record, I'd like to state this.

Witnesses appearing before committees enjoy the same freedom of speech and protection from arrest and molestation as do members of Parliament. Furthermore, section 13 of the Canadian Charter of Rights and Freedoms provides that, "A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence." Therefore, nothing said by a witness before a committee may be received in evidence against that person in a court of law or similar proceedings, except in a prosecution for perjury where evidence was given under oath. For this reason, a witness may not refuse to answer a question from the committee on the grounds of self-incrimination or that answering might expose the witness to a civil action.

Witnesses must answer all questions the committee puts to them. A witness may object to a question asked by an individual committee member. However, if the committee agrees that the question be put to the witness, he or she is obliged to reply, even if the information is self-incriminatory, is subject to solicitor-client or another privilege or on other grounds that might justify a refusal to respond in a court of law. A witness may ask for clarification if he or she does not understand a question. Members have been urged to display the appropriate courtesy and fairness when questioning witnesses. A witness who refuses to answer questions may be reported to the assembly.

Witnesses must also produce all records requested by the committee. A witness may object to production. However, if the committee agrees that the document is to be produced, the witness is obliged to do so. A refusal or failure to produce a document may be reported to the assembly.

A refusal to answer questions or to produce papers before the committee, giving false evidence, or prevaricating or misbehaving in giving evidence may give rise to a charge of contempt of the assembly, whether the witness has been sworn in or not.

Just before—I'm sorry, Ms. Fife?

Ms. Catherine Fife: Thank you, Chair. I'm just curious: The opening statements that you've just read to the witnesses: Did they receive that in writing prior to agreeing to be here at the committee?

The Chair (Mr. Prabmeet Singh Sarkaria): The statement that I just read out right now?

Ms. Catherine Fife: Yes, the statement.

The Chair (Mr. Prabmeet Singh Sarkaria): It's actually the parliamentary privilege, rights and duties of witnesses that appear before committees.

Ms. Catherine Fife: But I have been on many committees, and we've never—I mean, it's fairly intimidating, some of the language that's contained within that. I would—

The Chair (Mr. Prabmeet Singh Sarkaria): No, I understand that, but it is—

Ms. Catherine Fife: I'm just asking—perhaps the Chair and the committee would give consideration to ensuring that all future witnesses have that on paper, in writing, because I think it would be quite something to hear that just as you start to depute before this committee.

The Chair (Mr. Prabmeet Singh Sarkaria): That's a fair point. Thank you. Noted.

If the committee agrees, we can include that in future letters to potential witnesses.

Mr. Doug Downey: That may be a topic for the subcommittee.

The Chair (Mr. Prabmeet Singh Sarkaria): Sure. Okay. Yes, we can take that to subcommittee and decide on that.

Just before we begin, I want to start out with a couple of reminders to the committee. Please refrain from using unparliamentary language. Please keep the questions related to the mandate that the House has given us. I will be also be listening for the imputing of false and unavowed motives of other members. I will also be cautioning members first, but I will move on and give the floor to other members if the questioning persists.

Now I will turn it over to the panel for a quick 10-minute introduction. I'd also ask if each could state your name into the record for Hansard as well.

Mr. Peter Weltman: Okay. Why don't we start with that.

Mr. Matthew Stephenson: Matthew Stephenson.

Mr. Jeffrey Novak: Jeffrey Novak.

Mr. Peter Weltman: Peter Weltman.

Mr. Matt Gurnham: Matt Gurnham.

Mr. Peter Harrison: Peter Harrison.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Mr. Peter Weltman: Good afternoon, and thank you for inviting us to be here today. My name is Peter Weltman. I was appointed as Ontario's Financial Accountability Officer on May 7 of this year.

Sitting with me—we've already done the introductions, so I'll just skim over that part of the opening statement.

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

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

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

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

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

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

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

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

It's messy when you do two bases. The existence of two fiscal presentations with two dramatically different stories led to some unavoidable confusion for both legislators and the public, and our reports were unequivocal in stating that the previous government's decision not to adopt the Auditor General's recommended accounting treatment had reduced the clarity and reliability of Ontario's current and future fiscal position.

In our last economic and budget outlook, which was released following the spring 2018 budget, the FAO projected a budget deficit of $11.8 billion for 2018-19—so this fiscal year—an estimate that was similar to the Auditor General's pre-election report, despite the fact that we both took very different analytical approaches.

In that report, in our EBO, to avoid confusion, we presented an estimate based on the government's accounting in an appendix at the back of the report. No longer do we present them up front; we stuck one in the back.

Second, I would like to comment on the commission's recommendations on medium-term fiscal planning. As you may know, the Fiscal Transparency and Accountability Act, which we call the FTAA—sort of like the squash ball that whizzes by your ear, I guess—governs Ontario's fiscal policy. The act provides a framework for transparent fiscal policy development and reporting. In particular, the act permits governments to run a budget deficit in extraordinary circumstances, but requires that it also publish a recovery plan for returning the budget to balance. However, the FTAA does not define what constitutes extraordinary circumstances and does not require the government to detail how it will deliver on its fiscal deficit recovery plan.

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The lack of details in the previous government's recovery plan made it challenging for the FAO—and I'm assuming that, if it was challenging for us, we can assume it was probably challenging for legislators and voters—to adequately assess the 2018 budget's fiscal projections. As such, the FAO supports the commission's recommendation to review the Financial Transparency and Accountability Act and improve its effectiveness in guiding government fiscal planning and reporting.

Third, I would like to comment on the commission's recommendation to expand Ontario's long-term report on the economy to include additional analysis on fiscal sustainability. It's worth noting that the FAO currently publishes such a report. We do that every two years. It's the long-term budget outlook, and it assesses the province's long-term fiscal sustainability. Our last LTBO—long-term budget outlook—released in the fall of 2017, highlighted the significant fiscal challenges facing the province, stemming largely from Ontario's aging and more slowly growing population. Accordingly, we agree that a more frank and public discussion about the province's future fiscal challenges would benefit all Ontarians.

Finally, in addition to our economic and fiscal forecast, the FAO has published a number of reports on specific policy decisions that are relevant to the findings of the commission with respect to the Fair Hydro Plan and the partial divestiture of Hydro One. In May 2017, in response to requests from two MPPs, the FAO released a report on the government's Fair Hydro Plan, the purpose of which was to review the various components and report on the expected cost to the province and to electricity ratepayers. While undertaking the work on our report, we became aware of the complicated accounting and financing structure that was proposed for the global adjustment refinancing.

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

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

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

In addition, in our fall 2017 economic and budget outlook, the FAO first identified that many time-limited revenues, including the gain from the partial sale of Hydro One, were set to expire in 2017-18. The loss of these time-limited revenues partly explains the sharp increase in the projected budget deficit this year—this year being 2018-19. In fact, in our last economic and budget outlook, which we published in May, we estimated that the province was already facing an existing budget deficit of about $8 billion this year, before any new measures proposed in the 2018 budget were included. New measures from the 2018 budget added about another $4 billion, for a total deficit of about $11.8 billion this year, based on our estimates of last spring.

We are pleased to support the work of the select committee and we are happy to take your questions.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you very much. I'll now turn it over to the official opposition for 20 minutes of questioning, starting with Ms. Fife.

Ms. Catherine Fife: Thank you for being here today. I'm curious if your office has been following all of the delegations thus far. Of course, we've heard from the auditor, we've heard from senior staff and, yesterday, the financial commissioners were here. Have you been following closely?

Mr. Peter Weltman: We've been following as closely as we've been able to.

Ms. Catherine Fife: What is your understanding of the mandate of this committee? Please be blunt about it.

Mr. Peter Weltman: Our understanding is that the committee is here to further understand how the commission of inquiry—what the work was and how they reached its conclusions.

Ms. Catherine Fife: Do you think that legislators who had access to the 2017 Auditor General's report and your two latest reports would not fully understand the situation that exists right now in the province of Ontario?

Mr. Peter Weltman: Unless they come and talk to us, we don't really know what they're understanding or not understanding. But we do know we did our best to provide the information.

I can turn to one of my staff, if they have further insight into that, if you wish. I don't think anybody does. No.

Ms. Catherine Fife: When you read the special report by the commissioners, were you surprised at any of the findings that they came forward with?

Mr. Peter Weltman: There was nothing in that report that we hadn't really already talked about, apart from a few minor things that they chose to adjust.

Ms. Catherine Fife: The same thing with the Auditor General's report, the pre-election report where she has a mandate to review. When you read the AG's report, were there any surprises there for you either?

Mr. Peter Weltman: I'm going to defer to one of my staff to answer that question.

Ms. Catherine Fife: Please come to the microphone and state your name so that you can go in the Hansard.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. We're just going to have to ask the committee if they're agreeable to having Mr. West answer questions as well. I'll put that to the committee.

Okay, you may proceed. Thank you.

Mr. David West: My name is David West. I'm the chief economist with the FAO.

I'm sorry. Could you repeat the question?

Ms. Catherine Fife: I could, if I remember.

When the Auditor General also put out her pre-election report—and Mr. Weltman has already identified that there was tension between the government's perception of the fiscal situation of the province and then the Auditor General's report—were you surprised by anything that was in the AG's report, or were those numbers well known to you?

Mr. David West: No, not at all. In fact—

Ms. Catherine Fife: "Not at all" you weren't surprised, or you were—

Mr. David West: We were not surprised.

Ms. Catherine Fife: You were not surprised at all.

Mr. David West: The auditor's report aligned—for the current fiscal year, 2018-19, the auditor projected a deficit for the province of $11.7 billion. I might add that our own analysis came from a different analytical approach, but we arrived at $11.8 billion. It was remarkably the same. But our report went quite a good deal further and went on to look at the recovery plan and also accumulation of debt, in addition to just the current year.

Ms. Catherine Fife: Of course, yes.

The New Democrats were very proud to actually bring forward the FAO motion originally, in 2013, in a minority government. The entire goal was to have, of course, the Auditor General review the books and review the numbers, but also have the FAO independent officer review in a forward-looking manner.

I want to take us in that direction a little bit, because the commissioners make some recommendations about, of course, the fiscal state of the operational deficit. They address some debt, of course, because it's hard to ignore; it's a pretty big number. They look at future revenue streams, and they identify some critical areas. One of those areas is climate change. They say that the government of the day is going to—now that the Auditor General numbers are reflected in the deficit, they are going to have to look at revenue streams and address the issue around climate change.

Has your office been looking at that issue as well?

The Chair (Mr. Prabmeet Singh Sarkaria): I'm just going to, once again, caution to be within the mandate of the report. I know that climate change is referenced in there. But if you can tie it to being within the mandate in terms of transparency in decision-making, accounting practices, policy objectives of the previous government or even in preparing budgets, public accounts or other financial reports—I'm trying to see the linkage between your question and within the mandate.

Ms. Catherine Fife: And I want you to see the linkage, so I'm going to help you with that. But in the report it actually says, just for the FAO office, on page 31:

"Ontario faces significant challenges in the years ahead that will impact economic growth"—so, Mr. West, maybe this is for you—"and the province's revenues and expenses.

"In the near term, interest rates are expected to rise"—we know that yesterday, the commissioners were very clear that we will be moving into a recession; nobody knows when, and we don't know how bad it will be—and this "will put further pressure on Ontario's housing market and constrain consumer spending, especially given elevated levels of household debt."

Over the longer term, there are just two significant risks outside the government's control. The four issues that they move into are:

"—the rapid pace of globalization....;

"—recent tax reforms and protectionist trade policies in the United States;

"—cybersecurity threats; and

"—climate change."

Based on the commissioners' report, because the taxpayers paid for this report and something good has to come out of it, are you looking at—

Interruption.

Ms. Catherine Fife: Oh, you might get saved by the bell because we have to vote.

The Chair (Mr. Prabmeet Singh Sarkaria): It's a five-minute bell, yes.

Ms. Catherine Fife: So climate change is listed as a serious risk to the economy of the province of Ontario. Mr. West, are you doing any work now that this is public record?

Mr. David West: We identify risks in our short-term reports—

Ms. Catherine Fife: Can you just pull closer?

Ms. Sandy Shaw: Is it a five-minute bell or a 10-minute bell?

The Chair (Mr. Prabmeet Singh Sarkaria): It's a five-minute bell. We're going to have to—

Ms. Catherine Fife: It's a five-minute bell. You get to think about your answer, though. That's good.

The Chair (Mr. Prabmeet Singh Sarkaria): I'm just going to say that the committee is in recess until after the vote, but let's get back here as quickly as we can afterwards. Thank you.

The committee recessed from 1521 to 1532.

The Chair (Mr. Prabmeet Singh Sarkaria): The Select Committee on Financial Transparency is back in session. We will continuing with questioning with Ms. Fife.

Ms. Catherine Fife: Thank you. Do you want me to repeat so that—

Mrs. Robin Martin: Yes, please.

Ms. Catherine Fife: Okay. Part of the mandate of this committee is to get a clear picture of the fiscal situation in the province of Ontario. It's not just to look backward at what has happened and who has reported what but it's also to take action on this commission report. The commissioners' revelations, I think, are very important in a go-forward perspective, if we are to get a clear picture of the situation in the province of Ontario. They highlight a number of issues, one of them being climate change because it draws revenue, has an impact on the economy and will affect the future financial projections for Ontario. Could you please speak to this issue, Mr. West?

Mr. David West: Sure.

Ms. Catherine Fife: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, I'm going to just caution—I'm going to let the question go, but we're not here to speculate on any government policy in that sense. You can answer the question but not speculate on the actual policy of what you're asking in terms of climate change. Within the terms of the report, I will allow the question when we're speaking about transparency. But in terms of your question, it is open-ended in the sense that there could be some speculating on policy. I will ask to keep it tied into the mandate of the report. So I will allow the question with that caution.

Mr. Roman Baber: Point of order, Mr. Speaker?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Mr. Baber?

Mr. Roman Baber: Mr. Speaker, not only—respectfully, in my view—would it be speculation, this is also clearly outside the scope of these witnesses. Specifically—

Ms. Sandy Shaw: It's not, no.

Mr. Roman Baber: No, wait a minute. The reference made by my friend is referenced in the Independent Financial Commission of Inquiry report. The current witnesses have authored the spring 2017 FAO report on the Fair Hydro Plan. That would clearly be within their scope. Something that they didn't study—in my view, the question is not in order.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Baber. I'll still allow the question on it, but I'll just caution with the refrain of not speculating on the actual government policy. If you could keep it tied to the mandate of the report, within the transparency aspect of it and financial reporting and the guidelines and the recommendations we have in the report. Thank you.

Mr. West, right.

Mr. David West: Indeed, we look at risks when the FAO puts together its economic and fiscal outlooks. In the short term, we look at more short-term risks. But in the report that Peter mentioned in his opening statement—we took the opportunity to get a prop. This is our long-term budget outlook. In that, we identify a series of long-term risks that align very closely with what the commission mentioned, including climate change, technological change—and income inequality is another one we pointed out. These are issues that the economy will be addressing going forward.

Ms. Catherine Fife: Thank you. Do you cost them out in that report? I don't have that report in front of me.

Mr. David West: No. In this one, we had a baseline, the economic forecast. We assume that the province and, I guess, the globe, muddles through. But certainly, in future publications, that's something that we would want to look at in more detail.

Ms. Catherine Fife: Thank you. I apologize for the confusion. I think the mandate is broad enough to ask questions about revenue streams, and I would never ask you to speculate about the government's climate change plan, because they don't have one. That's the concern, though, that the commission sort of identified: There has to be some accounting for the impacts of climate change on the province, on the economy and on the bottom line here in Ontario.

I'm going to switch gears just to go around the size of the deficit, because this, obviously, will impact future decisions that this government makes around spending. Just to get it on the record, do you agree with the commission of fiscal inquiry's statement of the deficit? Was there agreement around the deficit, Mr. Weltman?

Mr. Peter Weltman: I would like to make it clear that the $15-billion figure is the commission's figure.

Ms. Catherine Fife: Yes.

Mr. Peter Weltman: It's not our figure. We will have our updated figure in our economic and budget outlook that we intend to release shortly after the release of the fall economic statement. So sometime in December we'll have our own number.

Ms. Catherine Fife: So probably within the next six weeks we may have an accurate number from the FAO?

Mr. Peter Weltman: Did you hear that, guys?

Ms. Catherine Fife: Six weeks. No pressure. No pressure on that. Because now it does become a numbers game. We've seen, quite honestly, political gamesmanship from governments of all stripes when a new government comes in. The deficits are usually understated by governments facing election, which is what happened prior to the election—but, of course, your report clarified that—and then new governments, of course, blaming their predecessors.

What would we be looking for if we were concerned that a government was actually overstating their deficit instead of understating it? What would your office be looking for?

Interjections.

Ms. Catherine Fife: You guys can both have a go.

Mr. Peter Weltman: To you, Chair: Just some guidance on the question. Can you repeat the question, just—

Ms. Catherine Fife: Yes, sure. If a government had come in and had overstated the deficit, right? I'm looking at the Auditor General's numbers, the FAO numbers as they stand, the commissioner's numbers—you say that you're going to be coming out with a different deficit number after the fall economic statement. Through your office—because your office is independent; it's nonpartisan; that's the key part of your office, quite honestly—what concerns would you have with the government overstating a deficit?

Mr. Doug Downey: Point of order.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, Mr. Downey.

Mr. Doug Downey: I don't think anybody suggested the Liberals overstated the deficit, so this is a future "if this, then that"—way too much speculation.

Ms. Catherine Fife: Clarification?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Ms. Fife.

Ms. Catherine Fife: I'm not saying that the Liberals overstated the deficit; I just said that the Liberals understated their deficit. The FAO actually confirmed that. What I'm saying is that if your government were overstating the deficit—

Mr. Doug Downey: That's not what we're doing here.

Ms. Catherine Fife: Well, it does have an economic impact on the province around spending and around revenue streams.

Mrs. Robin Martin: You can ask them that some other time.

Ms. Catherine Fife: No, I'm not going to ask them some other time.

Interjections.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: Through you, Mr. Chair: When the next report comes out, if that happens, feel free to ask the question. But we don't even know if their number is going to be higher or lower or sideways or what.

The Chair (Mr. Prabmeet Singh Sarkaria): So I take both points into consideration. Once again, I do caution on the speculative questions in that sense. But I think I'm going to allow this question because—so I will allow the question but, once again, speculating on any sort of future government policy but making sure that it's tied to the mandate of this report, which was reviewing the previous government's accounting practices and policies as well as transparency in preparation of the budgets, public accounts and financial reports—if we can tie it within that, I'll let the question go.

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Mr. Peter Weltman: Okay. I'll take the question. I think it's important to reiterate that we will look at all relevant data, including whatever the government puts out, before we come up with our own forecast.

We don't express concern or appreciation or anything like that. I think that's important to note. We just call it as we see it. So if the government has a number and we have a different number, well, that's the way it is. I think that's where I would probably land on that question.

Ms. Catherine Fife: Okay, thank you. And I look forward to your report and that deficit number.

How much time do I have, Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Just under five minutes—four minutes, 20 seconds.

Ms. Catherine Fife: Okay, thank you. The commissioner made some recommendations around reviewing the Financial Accountability Officer Act. I know that in the past—and I had a private member's bill to this effect—your office has had some difficulty accessing information, and you did reference in your opening comments that your goal is around budget transparency. Can you speak to how important it is for you to actually have access to information? Would that be one of the recommendations that you would concur with around the FAO Act modernization?

Mr. Peter Weltman: I can address the question. I think it's important. Really, information is the lifeblood of our office. My perspective, having come from Ottawa at the PBO for nine and a half years, is that we have a very mature relationship here between the executive and legislative branches. We have had unfettered access to the data and the expertise that we need from the executive branch of the previous government and this current government. They have both made it a priority to provide us with cabinet documents that are relevant to the studies that we undertake. So I've got to tell you: It's a huge relief and it's critical to our successful functioning in the office. I'm hoping that that is maintained in the future.

Ms. Catherine Fife: Your predecessor, Mr. LeClair, had to fight for that, so we should give thanks to him for sure.

Any other recommendations, though, around any changes with the Financial Accountability Officer Act, as recommended by the commission?

Mr. Peter Weltman: We had a few minor ones. To be honest, I didn't come prepared to talk to that, but I can certainly submit in the future if there are very specific things—

Ms. Catherine Fife: Oh, I'm sorry, you did reference it in your opening comments, that you concurred. But you don't have to. If you—

Mr. Peter Weltman: Oh, okay. I'm thinking of two different acts: there's the FTAA, which is not our act, and then the FAO Act.

Ms. Catherine Fife: I think you just like saying "FTAA," but that's another story.

Mr. Peter Weltman: I do, actually.

Does anybody want to talk to that while I scramble for notes?

Ms. Catherine Fife: You're running out of time.

Mr. Peter Weltman: I think, for the most part, things are working. There are a few little tweaks we'll probably make. I'd be better positioned to follow up with some specifics, because they're fairly technical.

I think in terms of FTAA, because I love saying it so much, certainly that's a piece of work that—we undertake that anyway.

Ms. Catherine Fife: Okay. Thank you, Mr. Weltman.

The Chair (Mr. Prabmeet Singh Sarkaria): Just under a minute and 30 seconds.

Ms. Catherine Fife: That's okay. It can go to the other party.

The Chair (Mr. Prabmeet Singh Sarkaria): Oh, okay. Thank you. Now I'll pass it over to the government side for 20 minutes of questioning, starting with Mr. Baber.

Mr. Roman Baber: Thank you, Chair. Gentlemen, thank you for coming in. Perhaps we'll start with a one-minute introduction by each of you—your background, your CV and how long you've been with the FAO. Perhaps we'll start with Mr. Stephenson.

Mr. Matthew Stephenson: Sure. So, undergrad in business, Wilfrid Laurier; graduate degree in finance, U of T. Before the FAO, I spent time in equity research, and I've been with the FAO since 2015.

Mr. Jeffrey Novak: Jeffrey Novak. I am the chief financial analyst at the FAO. I have graduate degrees in economics and history, and also a law degree, and have been with the FAO since the fall of 2015.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, I'm just going to ask if you could pull the mikes closer; we're just having a bit of trouble hearing. And the same to Mr. Baber as well, if you don't mind just pulling it a bit closer so we can—thank you.

Mr. David West: Okay. My name is David West, and I'm the chief economist. I have 30 years of professional experience in the public and private sectors, and 20 years with the Ministry of Finance across the street here as director of revenue and economic forecasting. I've been with the FAO nearly since its inception three and a half years ago as the chief economist.

Mr. Matt Gurnham: Matt Gurnham. I'm a director at the FAO. I was an undergrad at Dalhousie University, then I did an MBA at Dalhousie University. I'm a CFA charterholder. I spent a little over four years at Transport Canada before coming to the FAO in 2016. I've been here for a little over two and a half years.

Mr. Peter Weltman: You'll be sorry you asked. I have an undergraduate degree in political science and an MBA degree in finance, and many years in retail in Ottawa in the family business. I moved into the financial services business for many years, and then 15 years with the federal government, nine and a half of which were spent at the parliamentary budget office, and I was there just about since its inception.

Mr. Roman Baber: Thank you. Would you kindly describe your involvement with the May 2017 report? Perhaps again with Mr. Stephenson?

Mr. Matthew Stephenson: This is the fair hydro report?

Mr. Roman Baber: Correct, on the fair housing plan. This is the FAO's report on the fair housing plan.

Mrs. Robin Martin: Hydro plan.

Mr. Roman Baber: Sorry, Fair Hydro Plan.

Mr. Matthew Stephenson: Sure. I was involved for research analysis and was a co-author of the report with Matt Gurnham.

Mr. Jeffrey Novak: I became chief financial analyst at the beginning of May of that year and so joined the project in mid- to late April and was project director.

Mr. Matt Gurnham: I also co-authored the report with Matt Stephenson over there.

Mr. Peter Weltman: I, as the officer, inherit all of the accountabilities that arise from a report that I did not participate in.

Mr. Roman Baber: Thank you. Could—I would suggest perhaps Mr. Novak or Mr. Stephenson—provide us a quick overview of the Fair Hydro Plan?

Mr. Jeffrey Novak: Just a high-level—

Mr. Roman Baber: Very high, yes, high-level.

Mr. Jeffrey Novak: Sure. The Fair Hydro Plan: Essentially, it was the plan as announced by the province in the beginning of March. There are three components to the plan. One is the harmonized sales tax, or the HST, rebate. The second part is what we call the electricity costs refinancing, also called the global adjustment refinancing. Then, the third piece is what we call the adjusting electricity relief programs. So that's moving various programs to help with electricity relief. Those programs were originally paid for by ratepayers, and it was taking them off payment by ratepayers and instead being paid for by the province. I think the province also introduced a few new programs that are in that category as well.

Mr. Roman Baber: Mr. Novak, could you please break down the components of the plan, specifically the promised 25% rate reduction? What was the projected or built-in cost of each component?

Mr. Jeffrey Novak: Sure. The report looked at it from two perspectives. One would be the cost to the province of those three components. The other perspective would be: What is the cost or ultimately the savings to electricity ratepayers? Then we added it together and had what we call the net cost.

In terms of the province, what our report found at that time: We estimated the cost of the HST rebate to be about $42 billion over approximately 30 years. The cost of the electricity refinancing: The net cost under the province's accounting would be zero to the province. Then, I think it's about a $3-billion cost for the electricity relief programs to the province. That is a total to the province of about $45 billion.

In terms of the impact to electricity ratepayers, it would be the opposite. The HST rebate would provide savings of about $42 billion, the electricity relief programs would provide savings of about $3 billion, and the electricity cost refinancing would result in a cost to electricity ratepayers of about $21 billion. Over 29 or 30 years, that's a total savings to electricity ratepayers of about $24 billion.

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There are a number of assumptions and modelling that went into that. I'd be happy to discuss that as well, if you'd like.

Mr. Roman Baber: As my last question—if you could please break down the cost of the electricity refinancing, especially the $45-billion figure.

Mr. Jeffrey Novak: The electricity cost refinancing—I'm trying to find the exact totals there.

The key to the electricity cost refinancing is, there's short-term borrowing, which would be paid over time. The cost of the program is the interest repayments, which would, under our understanding of the proposal at the time, start in about 2027.

Also, page 4 of the report breaks it down into specific categories. But the general idea is that there's more upfront borrowing for about 10 years, and then that borrowing gets repaid. The net cost over time is the interest payments of about $21 billion.

Mr. Roman Baber: Thank you. Mr. Downey?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: I just want to clarify a couple of pieces that you just answered. You talked about savings. Were they actual savings, or were they just kicking it down the road?

Mr. Jeffrey Novak: The HST savings—rather than having to pay HST on your electricity bill, instead, the province was paying that 8%, essentially. That's actual savings for electricity ratepayers, but it's a cost for the province. It's moving it from electricity ratepayers to the province.

Mr. Doug Downey: Yes. But ultimately, it's got to be paid, and it has to be paid by the taxpayer either now or in the future.

Mr. Jeffrey Novak: That's right.

Mr. Doug Downey: So it was a shift, not a savings.

Mr. Jeffrey Novak: Yes. But it's savings for ratepayers, and it's a cost for the province. It's shifting it from one to the—

Mr. Doug Downey: Are there any ratepayers who aren't taxpayers in the province?

Mr. Jeffrey Novak: That's why we said that the net cost of the whole plan was $21 billion.

Mr. Doug Downey: But to get your net cost for the plan—but for the actual taxpayer, who is a ratepayer—they're on the hook for the whole thing. So is $45 billion not the real number?

Mr. Jeffrey Novak: So, $45 billion is what our estimate is of the cost to the province. Ratepayers and taxpayers are similar, but—

Mr. Doug Downey: The all-in is $45 billion. We can duke out who pays for it.

Mr. Jeffrey Novak: Pardon me?

Mr. Doug Downey: Regardless of who pays for it, the cost is $45 billion.

Mr. Jeffrey Novak: For the HST rebate component and the electricity programs that were taken off of the rate base and put onto the province's base, it's not a new cost. You're just moving costs from area to another. It's a new cost for the province and the province's budget balance, but it's not a new cost in the whole system.

Mr. Doug Downey: When you say "savings," you're talking about for the ratepayer.

Mr. Jeffrey Novak: That's right.

Mr. Doug Downey: But it's an additional cost for the taxpayer.

Mr. Jeffrey Novak: That's right.

Mr. Doug Downey: Okay. I just wanted to be clear about that.

I just want to touch on something that was said in the opening. It went fairly fast. The FAO stated using both kinds of accounting treatment but then shifted and used the Auditor General's numbers. Why the shift? What was the trigger for the shift?

Mr. David West: We reflected the accounting debate over the course of four reports for economic and budget outlook reports. We learned of it first through the Auditor General's 2015-16 public accounts. So the fall of 2016 was the first time we heard of this issue, and because the auditor brought it to our attention, we reflected it in our economic budget outlook and we presented it both on the government's accounting basis and on the Auditor General's recommended accounting basis. We had about a week or two, really, to get it into the document.

In the following spring 2017 document, we met with the Auditor General, we met with the expert panel of the government and we retained our own accounting expert to provide further context for our understanding–

Mr. Doug Downey: I'm sorry. You retained outside experts as well?

Mr. David West: Yes.

Mr. Doug Downey: Okay. Thank you.

Mr. David West: In that document, we again reflected it in a more accurate forecast of the costs going forward, based on our understanding with the assistance of the Auditor General and our own accounting expert on how to model it going forward.

Then by the fall of 2017, FHP was introduced into the mix, and so we introduced that as well. In this most recent one in the spring of 2018, we again had both, but we actually did probably make a policy change to fully reflect the Auditor General's—or put it up front; we always fully reflected it. But we put it up front and moved the government's reporting to an appendix. I think, as the officer said in his opening statement, that was to allow comparability to what the government was reporting but also provide what we think was the most accurate picture.

Mr. Doug Downey: And you came to that conclusion—was it accounting advice from outside advice? Was it legal advice or both?

Mr. David West: Accounting.

Mr. Doug Downey: And so with that outside accounting advice, you shifted gears and said, "We're following the AG's. We believe that's more accurate."

Mr. David West: Yes, I think that's fair.

Mr. Doug Downey: Right.

Mr. David West: I think, as Peter said in his opening statement, it was that we see the auditor as a referee of the proper interpretation of accounting standards, and so we defer to her on how best to do that.

Mr. Doug Downey: That's what I'm trying to understand. Did you just decide to defer to her all of a sudden after all of these years, or did you receive advice that said you should defer to her because she's right?

Mr. David West: I think it made sense to us that her view on it was sensible, and our view is that she's the person to opine on it.

Mr. Doug Downey: Was that reinforced by the outside advice?

Mr. David West: Not strongly, no. It was—

Mr. Doug Downey: It's a yes or no. It was either said, "This is the path to follow"—

Mr. David West: The outside advice did not provide a recommendation. They just said, "Here are the two sides of the argument."

Mr. Doug Downey: All it was was just, "Here's what it is. Pick which one you're more comfortable with"?

Mr. Peter Weltman: It was an analysis; that's what it was.

I think it's important to point out a couple of things. The pension issue shifted. Initially, the AG accepted a certain approach, and then the approach changed. Then we added the other thing into the mix too.

As we told the commission, it becomes very cumbersome when you have multiple bases of a baseline in your projections. I wasn't there at the time, but we were trying to reflect—because we have to be careful that we don't take an accounting; we aren't the accounting experts; we have to take our lead from somebody. When you have two experts telling you two different things, you have to make a call. Ultimately, we ended up starting with both and moving over to the AG.

Mr. Doug Downey: Okay. I just want to clear up one other piece. You had mentioned that there's open access to everything and you've been very comfortable that things have been free-flowing. That wasn't the experience of the FAO previously. There are press conferences or other pieces that talk about stonewalling and, in the reports, talking about a pattern of secrecy.

Maybe somebody who was there at the time can address what was going on.

Mr. Jeffrey Novak: I would say, in terms of our access to information, the rules on what we have access to are set out in the FAO Act, our legislation. From the beginning, it took some time to develop a relationship with the civil service, for them to understand—

Mr. Doug Downey: Sorry, I don't mean to cut you off; I'm just watching time. It says, "This government can't get its fiscal house in order and they don't want to be held accountable for it. I believe government obstruction was the result of political direction." That's what it says in the report.

Mr. Peter Weltman: Which report?

Interjection: That was at the press conference.

Mr. Doug Downey: At the press conference, sorry. On May 31, 2016, that's what the FAO said.

Interjection: It was Stephen LeClair.

Mr. Jeffrey Novak: Sorry, that was Stephen LeClair, May 31—

Mr. Doug Downey: In the report itself, it talks about stonewalling and not producing documents, at page 43.

Mr. Jeffrey Novak: So you're talking about 2016?

Mr. Doug Downey: Correct.

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Mr. Jeffrey Novak: Right. I think, in 2016, we were having difficulty getting access to information under our act. Stephen LeClair, at the time, complained about that. Subsequent to that, the government of the time signed an OIC which gave us access to cabinet records. As well, the civil service started to better understand what their obligations were under our legislation and under this new OIC. Since that OIC and that period over that summer, I would say we've had a good working relationship with the civil service and haven't had any trouble getting access to information as we require to do our job.

Mr. David West: May I add one sentence? Just with respect to the four reports that I referenced earlier, we never had any difficulty accessing information.

Mr. Doug Downey: Okay. Thank you.

The Fair Hydro Plan: In your report, it says, "If the province is required to fund its FHP ... through debt, then the cost to the province could increase to between $69 billion and $93 billion." Why the variance?

Mr. Jeffrey Novak: The $45-billion figure assumes that the province had a balanced budget and maintained a balanced budget over that time period. If you have to borrow to fund the HST rebate and the other electricity rate relief programs, then the interest cost of that borrowing increases the cost to the province of the Fair Hydro Plan.

Mr. Doug Downey: So you still stand by those numbers: It could be as high as $93 billion?

Mr. Jeffrey Novak: We haven't performed subsequent analysis since that report in 2017.

Mr. Doug Downey: Well, we know they didn't balance the budget.

Mr. Jeffrey Novak: That's right.

Mr. Doug Downey: So that's consistent with the analysis. Has the FAO investigated a scheme before with so many additional future costs packed in?

Mr. Jeffrey Novak: The nature of our business is that we need to forecast programs. I'm not sure of a specific program where we've gone out 30 years. We went out 30 years on this one because it was a specific time frame for this report. For other reports, we go out with what the appropriate amount of years is. For cap-and-trade, we went out four years; for Hydro One, we did estimate the impact to net debt over—

Mr. Matthew Stephenson: It was 10.

Mr. Jeffrey Novak: —10 years. We don't typically go out 30 years. I think it depends on what the situation is and what the program is that we're looking at.

Mr. Doug Downey: But nothing else to date that you're aware of.

The Chair (Mr. Prabmeet Singh Sarkaria): Just under a minute and 30.

Mr. Doug Downey: Thank you.

Mr. Jeffrey Novak: Oh, sorry—a report on nuclear cost refinancing looked up to 2064, I think. So that was a long-term review, and, of course, David's long-term budget outlook looked over—

Mr. Doug Downey: Okay. Just in the last minute that I have, what's the additional cost of them borrowing through the OPG Trust as opposed to traditional government borrowing?

Mr. Jeffrey Novak: Our report, based on the assumptions in our report, found it to be about $4 billion.

Mr. Doug Downey: Can you address the assumptions?

Mr. Jeffrey Novak: Sure. We assumed that the province's borrowing cost was going to be about 4.5% over the 30 years of the plan. In the province's long-term sustainability report, they forecast that the federal government's long-term borrowing costs will be about 3.6%. Historically, the spread between federal borrowing and our borrowing is about 90 basis points, so that gets you to 4.5% for the province.

Then we needed to figure out what the trust's borrowing costs would be. It would be a little bit higher than what the province's borrowing costs would be. We looked at OPG borrowing and other factors and settled on about 90 basis points as being the spread between provincial borrowing and what this trust's borrowing would be. Granted, at the time, it was before it had started, so we had to make a few assumptions. That led to a weighted average borrowing for the whole plan of about 5%.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I'll now turn it over to the opposition for the next 20 minutes: Ms. Shaw.

Ms. Sandy Shaw: Thank you for being here. I think I want to set the record straight, Mr. Weltman. I also have a prop—remember I had mentioned that you weren't mentioned in this book? In fact, you are, so my apologies in that regard.

I want to ask some long and rambling question about some of the assumptions that are in this commission's report, particularly some of the assumptions around the economy, I would suggest. This is also to help us understand because, as we keep saying, this report is looking at what has happened, but, as is in the mandate of our committee, we want to ensure that we get some information here that will help us with future fiscal planning so that as legislators, as well as an informed electorate, as you said, we have the kind of information that we need to make important decisions. That's why I'm trying to ask some questions about some of the assumptions: to help to educate me around that.

Can I just start with asking you some questions around the nature of the debt and the deficit? I notice in the report, if I can find the page, it shows that there has been a long series of deficits and surpluses since 1990—very few surpluses and very few balanced budgets. We see that this is not an entirely unusual thing. There are huge tax dollars at stake; we recognize this. But I want to know whether or not, given that we see, I would say, deficits and accumulating debt for so long—would you say that this is a structural deficit as opposed to a cyclical deficit, and why is that a significant difference for us to understand?

Mr. David West: The Ontario economy added 2.7% on average over the last four years. Most economists would say that that's the speed limit for the economy, if you will. The potential growth rate of the economy is a good deal less than that. The economy is growing faster than it probably could be sustained by productivity and population growth. I'm going to get to the structural deficit.

Really, the economy is performing very strongly. This is the time that you want to see revenues coming in reflecting that economy, so you would want to see a balanced budget or certainly closer to a balanced budget than we are seeing.

Going forward, most forecasters expected a gradual decline in the growth rate—certainly not a recession. Nobody—well, there may be some out there, but generally nobody is forecasting a recession. But recessions do occur.

Having said that, slower growth is coming. The economy is going to track back down to its potential growth rate, and revenue growth will be slower. Things will only get more challenging—not easier—going forward. Yes, you have a structural deficit, to answer the question.

Ms. Sandy Shaw: Thank you. In terms of the economy and its performance—I guess you said it was about 2.7%. What do they call it—range bound? There's only a certain range in which GDP operates, and we've been at 2.7% for a while.

Mr. David West: Yes. This current year, you're going to be less than that, but the last four years—2017 and the four years prior.

Ms. Sandy Shaw: Thank you. But I'm asking, since this report was written—this is a quickly evolving situation—our economy—and some of the substantial risks that we're looking at: tariffs and treasury bond rates. Would you say that we can rely on the assumptions in this report, or are they reasonable, based on the potential of a recession? We had the commissioners here yesterday, who all said similar to what you said, but they said a recession is coming. My question is: Is this financial model or are these assumptions in this report currently reasonable or do we need to consider that they need to reflect the changing economy?

Mr. David West: The projections in this report reflect very closely our own forecasts, so needless to say, I would say that our forecasts are very reasonable. Is there a risk of a recession? Is there a risk that the economy could perform much weaker than we're projecting? Sure. But on balance, we give what we think is the best outlook over the next five years. Economists generally assume that we're going to muddle through these challenges that we're seeing through the US. We've done that with the renewed NAFTA and some other challenges. Growth will track lower, but nobody is predicting a recession or a disaster.

Ms. Sandy Shaw: That's good to know.

Ms. Catherine Fife: You're on the record.

Ms. Sandy Shaw: Yes, exactly. I'll get back to you on that. All right, and so—

Mr. David West: Let me rephrase that.

Ms. Sandy Shaw: Yes. Call my broker, please.

Mr. David West: When we prepare our forecasts—again, this aligns with this. We could easily be fearmongers and come up with a really poor, weak forecast. But honestly, the fiscal situation is challenging enough with decent growth, so there's no need to cook the books, no need to be a fearmonger in terms of a recession or weaker growth. It's a challenge just with potential growth. With what we expect, just average growth, it's going to be hard. If things get worse, it's going to be harder.

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Ms. Sandy Shaw: Right. I guess what I've heard before is that because of the level of debt and the indebtedness that we have, we've limited our fiscal room to manoeuvre. Would you agree that that is true?

Mr. David West: Yes.

Ms. Sandy Shaw: It's sort of around the circle here, but I want to go back to understanding this whole issue of the net-debt-to-GDP. It's mentioned in this report a lot. It gets mentioned a lot. It's also in the FTAA, by the way. It's mentioned in there somewhere—I can't find it—which I'd actually like to read out. Under "Provincial debt," it says, "Ontario's fiscal policy must seek to maintain a prudent ratio of provincial debt to Ontario's gross domestic product." Right? It's hard to argue with that.

Then, also, in this report, if I can find that as well, the recommendation is very similar: "Conduct analysis to determine and set an appropriate target and timeline to reduce the province's ratio of net debt to GDP."

To me, this is like when you go to get a burrito. How hot is hot? "I'd like it spicy," "I'd like it extra-spicy." Who determines what a prudent or reasonable level of net-debt-to-GDP is? This is where I don't understand. It's two sides: There's the debt, and then there's the GDP, and they're both moving around. How do we know whether this is a reliable—I'm not saying it's not a reliable measure, but how do we know that this isn't a measure that we use to create fiscal policy just to adjust that metric, as opposed to that metric helping us to understand where we are? Does that make sense to you? Are we serving the metric of net-debt-to-GDP, or do we want to ensure that fiscal policy helps Ontarians—and that the net-debt-to-GDP is what it is.

Mr. Peter Weltman: Good questions. I think it's important to understand that governments need to set a policy. In the PBO, we call this a fiscal anchor. There's the fiscal anchor of yearly deficits, or budget balance. Is that an anchor that you'll want to plan for or try to plan to, or is your anchor going to be a debt-to-GDP type of an anchor?

What that anchor is, and the size of it, really is an assessment done by the government. It certainly could be done by us if we're asked to do it, but it's typically a policy of the government.

Again, we'll always suggest that prudent practices in government budgeting require you to have some sort of an anchor that you're putting out there for everybody to understand.

To avoid serving one and serving the other—that's the purpose of this thing. It's a benchmark, really. You're trying to put a target out there so people understand where you are and where you're heading to and why, and that's really the government's job to do.

Ms. Sandy Shaw: Thank you. Still on the net-debt-to-GDP, my question would be—maybe it's more of a comment. I saw a TVO show when current Minister Fedeli was there, and the previous government said, "We don't like to get above 40% net-debt-to-GDP." He seemed to think that that was the "aha" moment for him, where he realized that this was why the Liberals had come up with this way of—well, how many adjectives have we had for their accounting design? And that was specifically because they didn't want to get that net-debt-to-GDP over 40%.

So I guess it's a comment. Maybe I'll make it a question: In that instance, do you feel like that fear of the number going over 40% drove us into this problem in the first place, that all these financial accounting acrobatics took place just in order to make sure that they manipulated that net-debt-to-GDP?

Mr. Peter Weltman: It's a very good question, and I know I keep saying that, because it's a bit of a tricky way to answer the question. The way I'll answer it is in general terms.

Typically, when a government sets out a policy, it will do its very best to live up to that policy. We saw it, certainly, when I was in Ottawa. There was a commitment after the recession to get back to balance before the next election, and there were significant efforts made by the government, in all kinds of ways, to do that, in the same way that I think there are government policies that have happened over the years where there has been a promise made to cancel a program or add a program. It's really trying to hit your planning number and doing whatever you need to do to do that because that's what you've promised the electorate.

Ms. Sandy Shaw: Okay. How much time do I have, Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): You still have just about nine minutes, right on.

Ms. Sandy Shaw: Oh, more time to talk about net-debt-to-GDP. Okay.

Ms. Catherine Fife: Or burritos.

Ms. Sandy Shaw: Or burritos, yes, that's right. I haven't had lunch yet.

Just a quick question: The net-debt-to-GDP, does this include or factor in—and do you think maybe this commission's report factored in—our demographics, our aging demographics? Does it factor in whether the economy—I guess you'd call it the "output gap"—is going to be functioning at the kind of level we expect because of people getting older?

Mr. Peter Weltman: I think Dave is going to address that. We do talk about it.

Mr. David West: We spent a lot of time in our long-term report talking about net-debt-to-GDP, and we tested the net-debt-to-GDP ratio and what is a good answer to the question that you're asking. There isn't a number out there—41 is not better than 40 and 43 is not better than 44, necessarily.

What was frightening or at least concerning to us when we did the modelling is how unstable it can be moving forward. It was more the movement of the 40% debt-to-GDP ratio to a 60% debt-to-GDP ratio as we move through the 2020s and the 2030s. What we show in this report is that an aging population and a slowing economy—slowing growth in the economy from a more slowly growing population—is going to lead to higher demands for government services and slower growth in revenues. That leads to deficits and that leads to this debt problem, and it does grow to 60%. So it's the slope of the curve, if you will.

Ms. Sandy Shaw: Right.

Mr. David West: It's how fast it's increasing that's concerning. That gets to the question of sustainability. Is this sustainable? I don't know what the right number, but certainly it's not sustainable if it's going up every single year.

To address that, we said, "How much of a fiscal adjustment would the government have to make in 2016 or 2017?" when we did this report. It was $6.5 billion. You either have to lower your spending or raise your revenues by that amount to bring down and run small surpluses right now. Eventually, that's going to lead to smaller deficits in the future, because there's going to be a natural tendency to go towards deficits in the late 2020s as folks like me get older. I'm going to put more demands on government services.

We tested it. You have to get it under control today to be able to prepare yourself for this coming wave of retirees and greater demands on government.

Ms. Sandy Shaw: Okay. Thank you. That's helpful.

I guess I'm just going to go back to whether or not we are pre-recession, whether we are in a period of economic growth. It's a science; it's a bit of an art. Right? It's an art and a science. I know that Mr. Weltman, you were at the PBO. I read about it. The whole idea of cutting—there are very few things that the government can do, at this point, to reduce the debt and the deficit because there are certain services that you just don't cut. The vast majority of the increase to the debt has been health care spending. Your reports indicated that.

I want to ask you, in terms of cutting spending, in a time when you're in a period of recession or pre-recession—I'm specifically going to ask you to share your wisdom. I mean, we had the fiscal conservative of all Conservatives, which was Minister Flaherty at the time. Even that time, when there was the idea to be a fiscal conservative, there was a recognition that we were in recessionary times. In fact, if I'm not incorrect, they ran the largest federal deficit in modern history to stimulate the economy. There's reference here, in this report, about measures to stimulate the economy

I guess what I want to say to you: We understand we need to get the debt and the deficit under control, and there are significant taxpayer dollars at risk. But is there a possibility that, if you will, austerity budgets or cutting could, in fact, put some gasoline on the fire or, in fact, are we in a position where we could not recognize this—

Mr. Doug Downey: Point of order, Mr. Chair.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: Point of order. I'm not getting college credit for this. It's very interesting economic discussion, but I don't understand the relevance to—

Ms. Catherine Fife: There's no need for that. Come on.

Mr. Doug Downey: Well, I'm getting a little frustrated.

Ms. Catherine Fife: There's no need for that. It's so rude and unparliamentary.

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Ms. Sandy Shaw: This report does mention fiscal measures to stimulate the economy. It's in the report. Right now we have Mr. Weltman before us, who has had experience in an economy that took a downturn that no one was expecting, and there was a need to come up with measures to stimulate the economy.

My question, if you will, based on the recommendations in the report around some of the fiscal measures to stimulate the economy: Is it a risk that we could overcorrect with some of these measures and end up having to come up with some of the extreme measures that we saw at the federal level when they had all that fiscal stimulus program?

The Chair (Mr. Prabmeet Singh Sarkaria): Just before we answer that question—I'll take the point of order and the question. We're not commenting on any specific policies or what's being cut or anything. In general terms, you can put that question, but if we're speaking to any specific reference to any item to cut, that we can't do. If you want to speak to lower spending just on a general note, that's okay.

Ms. Sandy Shaw: All right. I'll make the question really simple.

Mr. Doug Downey: Mr. Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: I would like to apologize to Ms. Shaw. It was a bit of an outburst. I apologize. I would just ask that you put the question, please.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Downey.

Just three minutes.

Ms. Sandy Shaw: Can you talk about discretionary measures to stimulate the economy that you've had experience with in an era of recession or pre-recession, as opposed to retracting—

Mr. Peter Weltman: Well, after the recession, the 2011 budget was a big stimulus budget. I'm trying to answer in a general sense. There are certainly many measures that were taken to address what was happening at the time.

The other thing that you have in place are these automatic fiscal stabilizers, an example being that if people are out of work, they collect employment insurance, so your EI bill goes up.

Ms. Sandy Shaw: Right.

Mr. Peter Weltman: With a bunch of these social programs you have these stabilizers that kick in almost automatically, so you almost have no choice but to start running a deficit because these programs are statutory programs.

When it comes to correcting, if you will, certainly the government was keen to get back to balance. We did some work initially on what would have happened—really what you're asking is, "What would have happened," so what is the counterfactual, "if we didn't do anything, or if we did this?" These aren't easy questions to answer. These are always questions that are answered in retrospect. It's something you can't do at the time. So if you were to ask me today if I were—

The Chair (Mr. Prabmeet Singh Sarkaria): If I could just add in here: again, within the mandate of the report, we're not to speculate on the previous government, if we're talking about a different budget. If we can speak within the context of the report—

Ms. Sandy Shaw: Within the context of the mandate, it says "in order to establish the baseline for future fiscal planning." I think that's the area that we're trying to get at.

The Chair (Mr. Prabmeet Singh Sarkaria): That's fair, but we were commenting about specific measures from a previous—

Ms. Sandy Shaw: Just to give us some idea.

The Chair (Mr. Prabmeet Singh Sarkaria): I can take the question in general terms, but specific to the report and what we're examining here. I'll allow that. But if we're going very broad and just examining something from a different government, that's where I'm trying to caution to keep it within the report.

Ms. Sandy Shaw: All right. So maybe in broad, general terms you can talk about, as is mentioned in the report, what are some of the discretionary measures that can be taken to stimulate the economy?

Mr. Peter Weltman: I think we've seen a number of—generally it's spending, or cutting taxes. Those are the ways you stimulate an economy. That's basically it, in a general sense.

I think the importance of the report, though, is the establishment of a baseline that's clear and transparent. That's really the key, because everybody's got to go from a baseline that is accepted, that is legitimate and that is authoritative.

Ms. Sandy Shaw: Do I have time for one more question, Chair? It's around the assumptions—

The Chair (Mr. Prabmeet Singh Sarkaria): Twenty seconds.

Ms. Sandy Shaw: —of the report. In there it says that one of the threats to the government is the increase in the minimum wage. That is on page 28. There is an allocation of $100 million in the calculation. Do you have any information, any evidence, as to where the government would have got that figure from?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. If you can ask that question again on the response, just because it took 30 seconds to ask the question. When it's back to your turn, I'll let you ask that question again, but in the interests of time we will switch it back to the government side for 20 minutes. Mrs. Martin.

Mrs. Robin Martin: Thank you, Mr. Chair, and thank you, witnesses.

I want to take you to page 1 of your report. Just below the middle of the page, you say—

Mr. Peter Weltman: I'm assuming the Fair Hydro Plan—is that the report you're referring to?

Mrs. Robin Martin: Sorry. Yes, that's the report: spring 2017, Fair Hydro Plan report. You say, at the indented bullet, "Electricity cost refinancing achieves savings for ratepayers from 2017 to 2027 by deferring $18.4 billion in electricity costs. Starting in 2028, ratepayers will be required to repay the $18.4 billion in deferred electricity costs plus approximately $21.0 billion in interest costs."

I have a little trouble with the word "savings" in there. Essentially, this is just a deferral of expense. I guess maybe there is some time value of money or something, but basically they're just deferring costs?

Mr. Jeffrey Novak: That's correct.

Mrs. Robin Martin: So it's like a "pay later" kind of scheme. You put that on hold, you pay later, and for that privilege, you get to pay $21 billion in interest costs.

Mr. Jeffrey Novak: That's right.

Mrs. Robin Martin: In a sense, the ratepayers, because of the global adjustment refinancing, which this talks about, are not actually saving any money, except for whatever minimal time value of money there is.

Mr. Jeffrey Novak: That's right. Over the life of the plan, the electricity cost refinancing is costing them $21 billion in today's dollars. So there is some time value of money that—

Mrs. Robin Martin: But probably not the interest amount, probably not $21 billion worth.

Mr. Jeffrey Novak: I'm not sure what the time value number would be offhand—

Mrs. Robin Martin: Okay. I mean it seems like an extreme amount of money. How did you come up with that $21 billion for the interest costs?

Mr. Jeffrey Novak: I can speak to it at a high level but—

Mrs. Robin Martin: A high level is probably fine.

Mr. Jeffrey Novak: Right. The starting point is that we knew—we had information both publicly and from the province in terms of the plan of what they were intending to do. It started with a 25% reduction in electricity bills and holding that number to the rate of inflation for about four years, and then gradually letting the cost of electricity increase.

To get to the 25%, there's the HST component. There is moving the electricity relief programs off the rate base, and then the rest is the electricity cost for financing, which is about 17% of the costs.

Mrs. Robin Martin: It's $16 billion, I think.

Mr. Jeffrey Novak: Yes, but 17%—sorry—of the 25%.

Mrs. Robin Martin: Of the 25%, gotcha.

Mr. Jeffrey Novak: So everything, the cost and the amount of borrowing, about $18.4 billion, and then the interest payment costs, is all based on those parameters of the 17% cost reduction, holding it to the rate of inflation and then having it grow back and then having it all paid back over 30 years. It's just modelling the cost.

Mrs. Robin Martin: Those interest costs of $21 billion were not—I think we discussed it earlier—interest costs that the government incurred but rather the OPG Trust. It was through them?

Mr. Jeffrey Novak: Under the plan, the trust would be borrowing about 55% of the debt and then the province would be borrowing about 45% of the debt. Then I believe it would all be held by the trust, but there were two different groups that were doing the borrowing. That's how you got to the 5% estimate of what the interest costs would be over the 30-year period.

Mrs. Robin Martin: But you agree that whatever parts of this were borrowed through the OPG Trust were going to be at a higher rate—I think you testified to that earlier—than the government would have paid if they'd borrowed it directly.

Mr. Jeffrey Novak: That's correct.

Mrs. Robin Martin: I know some of you have some private sector experience. You said you were at Osler. It's a former firm that I worked at. If someone in the private sector, an executive, took on additional interest costs in this way, how do you think that they would react, if financing would be available at lower rates?

Mr. Jeffrey Novak: I'm not sure—

Interjection.

Mr. Jeffrey Novak: Yes, I'll let Peter handle it.

Mr. Peter Weltman: Yes, I think that's probably a question best answered—

Mr. Jeffrey Novak: I have to say when I was working at a law firm, we would just take direction and—

Mrs. Robin Martin: You would just do what you were told? Damn lawyers, eh? Okay. What's the total additional cost, do you know, for the decision to borrow through the OPG Trust?

Mr. Jeffrey Novak: We estimated it to be about $4 billion, based on the assumptions that we outline in the report.

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Mrs. Robin Martin: Okay. And were there any benefits to the public from borrowing through the OPG Trust?

Mr. Jeffrey Novak: I'll look at my guys as well, but I can't think of anything off the top of my head.

Mrs. Robin Martin: All right. Can you explain to us the fair hydro scheme, step by step? If it helps, it's appendix C of your report, I think, which gives a little figure.

Mr. Jeffrey Novak: Sure. Again, I'll start at the high level, and if you have technical questions, we can dig down. Essentially, you could think of it as: Electricity generators are producing electricity. They have contracts. They're owed money by electricity ratepayers. What was happening under this plan is that the IESO, the Independent Electricity System Operator, was continuing to pay the electricity generators, but instead of charging a portion of that to ratepayers, they were receiving the borrowed funds from OPG Trust and also from the province.

At the highest level, it was basically just deferring some of the costs that the ratepayers owed. The electricity generators were being made whole through the borrowing that was done by the province and OPG Trust.

Mrs. Robin Martin: Okay. It sounds fairly complicated. What is the purpose of making such a complicated structure?

Mr. Peter Weltman: I think the AG answered that question as well. They had a policy objective, and I think this was how they figured out they could achieve the policy objective. I don't know that we could really comment more on that, though.

Mrs. Robin Martin: So the policy objective was just because they didn't want, as my friend said, to get to the 40% debt-to-GDP ratio? That objective—is that what you're referring to?

Mr. Peter Weltman: I think the policy objective here, and I'm only going by what I've heard and read, is to afford relief to ratepayers and not have any cost of that show up on the consolidated statements of the province of Ontario.

Mrs. Robin Martin: Okay. And the OPG Trust—their books don't show up on the consolidated statements of the government?

Mr. Jeffrey Novak: I think they do. The key is that a regulatory asset was created, and it's the regulatory asset that is offsetting the cost of the borrowing. The trust still appeared on the consolidated financial statements of the province.

Mrs. Robin Martin: Okay. Is there an easier way to achieve this same objective that would be more transparent to the public, because we value transparency, as you pointed out at the beginning.

Mr. Peter Weltman: We can't comment on the policy options available to the government and choose which one is better than the other.

Mrs. Robin Martin: But to refinance the electricity rates, as the government was trying to do, could they not have just put it directly on the province's books, as opposed to having this convoluted scheme?

Mr. Jeffrey Novak: They could have.

Mrs. Robin Martin: Thank you.

You mentioned a regulated asset. Can you define that term?

Mr. Jeffrey Novak: I'd probably defer to the Auditor General to define a regulatory asset. In our report, we call it a regulatory asset/investment asset, and I think that is some of the terminology that was in the proposed bill which was ultimately passed.

Mrs. Robin Martin: So none of you work with regulatory assets, in the sense of doing your job—you can't discuss that? Is that what you're saying?

Mr. Jeffrey Novak: That's right.

Mrs. Robin Martin: Okay. Going back to the report, on page—I think it's figure 3.2. Yes, it's on page 5, at the top. There's a graph. Can someone just describe the graph for the record?

Mr. Jeffrey Novak: Sure. It's figure 3.2 at the top of page 5. There are two lines there. One, the dark one, is the status quo. That's our estimate of, essentially, the cost of electricity to eligible ratepayers—essentially, residential electricity ratepayers. That's what would have happened pre-Fair Hydro Plan, so the status quo. Then, I guess it's the green line or the light line, is our estimate of electricity costs under the Fair Hydro Plan.

Mr. Matt Gurnham: Can I just add: It's pre-tax. The graph is intended to show the impact of the refinancing without the HST rebate.

Mrs. Robin Martin: How would you describe the impact that it shows?

Mr. Jeffrey Novak: There's a significant drop in the early years, followed by a rapid increase and then, starting in about 2028, costs will be higher than they would have been under the status quo.

Mrs. Robin Martin: Okay. I think somewhere in here, as I recall, you have laid out what the increases will be, percentage-wise, over those periods of time.

I notice that it says on the graph that "the electricity cost refinancing initiative does not 'smooth out' the cost of electricity." I take it that that's because it has a such a dramatic difference between at the beginning, where it's much lower, and then followed by a rapid rise. Then it levels out a bit, but it's still going up. Is that right, that it's not a smooth curve? In fact, the status quo was smoother than what they achieved.

Mr. Jeffrey Novak: That's right. I think that comment was in reference to some of the commentary around fair hydro, that it was going to smooth out costs, and our point was that it was not.

Mrs. Robin Martin: It didn't. Yes. Okay.

Going back to my other question: I wanted to know about how the prices would rise. I think that's on page 1 of your report, again, if you want to go back there.

Can you just tell us about the different stages in how the prices would increase over those 30 years you looked at?

Mr. Jeffrey Novak: Sure. We mentioned the ratepayer bill, as well, in appendix A.

I can start and, again, folks can jump in. In terms of the electricity ratepayer, the objective was to reduce costs by 25%, which we thought would be achieved based on the plans laid out to us. Then costs would be kept at about 2%, or inflation, for four years. Then, as you saw on that chart, there's going to be a rapid increase in costs. I think we said that it was going to average about a 6.8% increase each year to about 2028, after which prices would be about 4% higher under this Fair Hydro Plan than it would be if you just let the status quo run.

Mrs. Robin Martin: Has this office, the Financial Accountability Office, ever investigated a scheme as complicated as this one?

Mr. Jeffrey Novak: I'd say that we've looked at a lot of files, and some of them have been very complicated.

Mrs. Robin Martin: As complicated as the scheme you showed me in appendix C?

Mr. Jeffrey Novak: I'd say, if you just look at the amount of reports we've done, some of them have been difficult transactions and projects that we've looked it. So this was a complicated one, and there have been some others as well.

Mr. Peter Weltman: We're just going to add to that: We don't actually have to look at the complexity of the structure. We have the luxury of taking the outcome of that and then projecting from that point on. When you're looking at cost estimates of refurbishing nuclear plants, that can also become a very complex exercise.

Mrs. Robin Martin: That's true. Okay.

Did the former government plan for interest rates to increase significantly in their plan? I'm looking at your key risks, and one of the things that you talk about is interest rate assumptions. Do you want to elaborate on what the risk is there?

Mr. Peter Weltman: I'd say that we assumed an all-in average interest rate of 5% over the 30 years. I believe that the province had a similar assumption for interest rates. I think we noted it as a risk in case interest rates were higher than that, or potentially lower. I think there's a graph in the appendix which shows how costs would change based on different interest rates. I think we're just noting that it's a critical assumption—what the interest is going to be. Obviously, it could be different over 30 years.

Mrs. Robin Martin: All right. That's at appendix B, I think. You've noted interest rate sensitivity there.

Mr. Jeffrey Novak: That's right. And then the second page—

Mrs. Robin Martin: And the graph—

Mr. Jeffrey Novak: Yes, the second page has the bar graph.

Mrs. Robin Martin: Figure 6.3. That shows that the estimated impact of the interest acts you looked at, which are between 3.5% and 7.5%, could go anywhere from $11 billion in total interest to the $21 billion that you have included but also as high as $42 billion in total interest if the interest rate was 7.5%.

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Mr. Jeffrey Novak: That's right.

Mrs. Robin Martin: Okay. So, there's a big variance there.

Do you think, as a rule, that governments should be making plans for changes that may come—financial plans or projections? Is that a prudent way of planning?

Mr. Peter Weltman: Typically, when we're presenting a projection, we always try to—like I say to everybody, we're going to be wrong when we try to forecast something in the future. How wrong are we going to be? That's the purpose behind putting a sensitivity analysis around it. So, the opportunity is there, if you're running this program, to adjust for those or not. It's entirely up to whoever is running that program, and this is a government program, so it's entirely up to the government.

Mrs. Robin Martin: Okay. I noticed the other risk that you've talked about is the cost of providing electricity to eligible retailers. Can you just talk about that risk?

Mr. Jeffrey Novak: I think the idea there is, to reduce the cost of electricity by 25%, hold it at 2% growth, and then pay it back, assumes what the amount of electricity generation and demand by ratepayers will be. To the extent that those projections are different, if there's more demand than expected, then that would change the cost to the amount of borrowing required to defer enough of the cost to get to the result you need for ratepayer bills.

Mrs. Robin Martin: Okay. Is there anything in the plan, the fair hydro scheme that they proposed, that addresses that possibility of different demand in electricity?

Mr. Jeffrey Novak: In terms of the projection for the cost?

Mrs. Robin Martin: Yes, what they proposed.

Mr. Jeffrey Novak: I would say that our estimates in this report are based on the information that we had at that time, so we haven't done an all-in update on what the cost would be.

Mrs. Robin Martin: Fair enough. But you identified this as a risk, so the risk is that they didn't plan for this. Isn't that correct?

Mr. Jeffrey Novak: Not that they didn't plan for it.

Mrs. Robin Martin: They didn't take it into account.

Mr. Jeffrey Novak: The risk is that reality turns out to be different than—

Mrs. Robin Martin: —what happens.

Mr. Jeffrey Novak: Yes.

Mr. Peter Weltman: The risk is that the reality is different than the forecast. That's the risk.

Mrs. Robin Martin: Right. Okay, fair enough.

Mr. Peter Weltman: Whether they take it into account or not, we have no way of knowing.

Mrs. Robin Martin: Okay, fair enough.

The Chair (Mr. Prabmeet Singh Sarkaria): Approximately two minutes.

Mrs. Robin Martin: I know that the commissioners had projected that interest rates are likely to rise beyond current rates of borrowing. Are you guys in agreement with that?

Mr. Peter Weltman: Yes.

Mrs. Robin Martin: With that understanding, is it fair to say, based on your report, that this plan is likely to cost more than what you've projected in your report?

Mr. Jeffrey Novak: I don't think we've looked at whether 5% is still expected over the time period. I'll look to David as well. But I don't think interest rates have changed sufficiently to make 5% seem too low.

Mr. Peter Weltman: In that 5%, we try to take into account the possibility of interest rates rising to a certain degree, based on our judgment.

Mr. Matt Gurnham: Also, the 4.5% we projected for the province is higher than their current borrowing rate.

Mrs. Robin Martin: That's true, right now, yes.

Mr. Matt Gurnham: So there is some of that built in already.

Mrs. Robin Martin: Okay, good. I think that's good. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Ms. Martin.

Now I'll turn it over for 20 minutes to Ms. Shaw.

Ms. Sandy Shaw: I'll just finish up where my last question was: on page 24, where they were talking about the revised outlook. I already sort of asked the question. One of the reasons they updated the forecast was, it says, "the impact of the recent increase in the minimum wage"—this is on page 24 of the report.

And on page 25, there's a value identified: $100 million for "Revise impact of minimum wage increase." Is this something that your office would look at, or do you have any similar calculations?

Mr. David West: In our economic budget outlook, we did indeed factor in the rise in minimum wage, which is a positive because, in fact, it raises incomes. Employee compensation is higher than it would otherwise have been, so you get more tax off that, though the folks who receive the minimum wage tend to pay less than an average amount of tax, if you will. So there is an adjustment. We did make an adjustment, so I don't really have any background on what this is reflecting.

Ms. Sandy Shaw: So you said that in your calculations, you saw that the raise in the minimum wage would be a positive revision to the revenue outlook?

Mr. David West: Yes. It was mostly an impact through incomes.

Ms. Sandy Shaw: We asked the commissioners yesterday how they reached this conclusion, and they told us that they received information from the government, but they weren't provided with the calculations. So I'm just curious, given that there's a big discrepancy on whether the impact of the minimum wage is a positive or a negative—

Mr. David West: Well, $100 million is a small number.

Ms. Sandy Shaw: Yes, but it's a trend that—I mean, we're looking at, right now, a repeal of the minimum wage. I think it's probably something that is significant, that we make sure we're on the same page as whether it's a negative.

So I'm just curious. It's in the report. There's a number there and, as members of this committee, is this not something where we should have access to how the commissioners reached this conclusion? I mean, even Mr. Fedeli says in his book that you have to prove your solutions, so I'm just wondering whether or not that's something that this committee could ask, how they came up with those calculations. Going forward, given the fact that we're looking at legislation to repeal the increase in the minimum wage, this would be information that we would need to have when we're talking about future fiscal planning.

So that's my question to the committee: Would that be information that we could be requesting, as we have asked for other documents?

The Chair (Mr. Prabmeet Singh Sarkaria): That's something that we can speak to. We can take that under advisement currently and continue with the questioning. We'll have to speak to it just within the committee.

Ms. Sandy Shaw: Okay. So you will report back to this committee, whether or not we can receive that data?

Mr. Doug Downey: Point of order: I think it's a subcommittee issue, and we're about to get a ton of documents, so it may be in there.

Ms. Sandy Shaw: All right. Okay, thank you. I'm done and I'll pass it to Mr. Vanthof.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof.

Mr. John Vanthof: Thank you, Chair, and thank you very much for coming.

Unlike some of you, I never had the pleasure of working with Osler, although I spent a lot of time on a John Deere, so I'm going to bring the level down to something more that I can understand.

Basically, I think a lot of people wouldn't understand the difference between your role as FAO and the Auditor General, so I'm just going to try to paraphrase, and if I'm getting it wrong, please feel free to jump in.

So the Auditor General looks at the past, looks at the books. I know in my business I'd have an audit. So the Auditor General looks at the past.

You look at future and present, right? Your office is more predictive.

Mr. Peter Weltman: That's right.

Mr. John Vanthof: But why you're so concerned about the province's books is because you need a solid baseline. To be predictive, a solid baseline is incredibly important to you.

Mr. Peter Weltman: Absolutely, yes. We need a starting point that's legitimate and that's authoritative.

Mr. John Vanthof: Okay. So over the last few years, there has been a considerable amount of disagreement, I would say, between the Auditor General's office and the government. As you've said in your statement, you have actually, in some of your predictive reports, put in two sets of books. I know in my business, my accountant didn't like when I suggested that we have two sets of books, but anyway.

Interjection: Or your lawyer.

Mr. Peter Weltman: I'm just not saying anything on that one.

Mr. John Vanthof: The Auditor General has made it very clear over the last couple of years that, in her professional opinion, using the rules that are generally accepted, she didn't feel that portions of the books were being presented accurately. She made that pretty clear.

Mr. Peter Weltman: Yes.

Mr. John Vanthof: And from what you've said, because you're doing two sets of books, or two—and I'm not trying to make this connotation or anything, but you're presenting the figures in two different ways, one so you can compare it to the government's figures and one to the Auditor General's, right? So you're having a problem.

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Then the election happened and this document of the commission was put forward, the Report of the Independent Financial Commission of Inquiry. What I get out of this is that what the government is trying to do is correct a baseline—have a solid baseline from which to start. I think we can all agree on that: That's what we're looking for.

I just want to get this straight in my head. When you read through the Report of the Independent Financial Commission of Inquiry—and I'm sure you've not just read through it; you've studied it, obviously. It's your job and, obviously, you're interested. Just to be clear, was there anything in the document and in the numbers that were presented that really hadn't been identified before? Was there a smoking gun—"Wow, there's $5 billion we didn't know was gone"?

Mr. Peter Weltman: No. There was nothing in there that we hadn't already written about, let alone not expected. There were some adjustments the commission made on spending, savings and that sort of thing, and growth rates. Those are entirely normal assumptions.

Mr. John Vanthof: Yes. There could be some, yes.

Mr. Peter Weltman: We'll have our own assumptions when we do our own forecast, as I mentioned earlier.

Mr. John Vanthof: Of course, because when you're—and I'll relate it back to my farm. When I used to make cash flows for my lenders, they were as representative as I could make them, but they weren't always 100% accurate because things happen that are beyond the farmer's control or beyond the government's control.

In your opinion, between your predictive work and the Auditor General's work and the commission's report—again, I'm going to be a bit repetitive—there was no real information that wasn't available publicly before, overall.

Mr. Peter Weltman: There's nothing in the report that we weren't aware of, for the most part.

Mr. John Vanthof: Okay. So the question is—and I'm hoping I'm going to get to where I really wanted to go. It was a case of the various parties presenting the information in the way that they thought was most advantageous to their goal. I don't want to speak for the committee, but hopefully the committee will agree with me: What we're looking for is a way that this doesn't happen again, because obviously the information was out there. The Auditor General was there with a big bright light, saying, "Whoa, whoa, whoa." You were there, predicting it. I know, as finance critic, I did interviews on your report and I did interviews on the Auditor General's report, along with the then critic for finance for the Conservative Party. We all said that the numbers weren't being presented correctly. That seemed like a huge disservice to the public.

I'm looking for how, in your opinion, could we—legislation to strengthen that? I don't know, but it has always bothered me that from the Auditor General's report and, quite frankly, your reports—not the reports. Don't get me wrong; you guys are doing a good job—but that the report comes out, and, if there's enough juicy stuff in there, the press is interested for half a press cycle or half a day, and then we forget about it. I don't think we forget, but, obviously, there's no mechanism to say, "Whoa, wait a second. The Auditor General says that this is wrong." Where is the mechanism to stop that? Is there some way? If you disagree with me, please tell me. Is there a way that we can make your reports and the Auditor General's reports more—

Ms. Catherine Fife: Actionable.

Mr. John Vanthof: —actionable—

Ms. Catherine Fife: Paramount.

Mr. John Vanthof: —yes—in our system? One thing I will grant this committee: It's one of the most fulsome discussions we've had of this issue, and that's a shame. Are there any recommendations you could make? The Auditor General does an amazing amount of work, as you do.

Mr. Peter Weltman: Does my face get funny when somebody asks me to make a recommendation? I try to hide it, but I'll answer your question very quickly.

You have it within your power as legislators, within your power as the Legislature, to do this stuff. You're the ones who have been elected to do this. You can constitute committees that have—if it's a majority/minority situation, you can structure committees to give yourselves that power. The Legislature is to hold the government to account. There's nothing that we can do except provide you with best analysis that is, as I said, neutral, nonpartisan, authoritative, but we weren't elected to do more than that.

Mr. John Vanthof: We are. Okay. Thank you for that. Some days, that's a sobering thought.

I'm going to now get back to the Fair Hydro Plan itself, and I'm not going to try and get into regulated/non-regulated. Basically, the government at that point was borrowing money to subsidize hydro rates. How they're putting that in their budgets: That's part of the problem, but basically if they want to make it simpler, they're borrowing money to subsidize the global adjustment so that ratepayers aren't paying the full hit of the global adjustment in a short period. They're borrowing money to do that; right?

Mr. Peter Weltman: Yes.

Mr. John Vanthof: In order to maintain this, I would say, short-term benefit—if you want to maintain the rates at this rate, a subsequent government will still have to borrow money to subsidize the rates, unless they somehow change—

Mr. Peter Weltman: All things remaining equal as they are, yes.

Mr. John Vanthof: Yes, yes. If a subsequent government—I need this for my own—I'm not trying to lead anybody anywhere, Chair—

The Chair (Mr. Prabmeet Singh Sarkaria): Yes. I'm not speculating.

Mr. John Vanthof: —and I know you will stop me.

Just for simplicity's sake, the global adjustment is the sum total of all the fixed costs that the hydro system can't get out of the ratepayer. The global adjustment is green energy projects, but it's also, I believe, probably where the gas plant money comes from. Or, how about you define the global adjustment for me so I don't have to do it?

Mr. Jeffrey Novak: Sure. Again, I'll start at a general level and Matt can give more detail.

The cost of electricity is how much you pay the generators, plus what other programs you want to have on the rate base. The cost to generators can be contracts, like the green programs; it can be for hydro etc. Is there anything else that I'm forgetting?

Mr. Matt Gurnham: It's basically just the cost of electricity that is not recovered through the market price. A lot of those costs are fixed costs. A nuclear plant does not buy electricity in Ontario's market at the price that its contract is paid at. So the difference between that market price and the contract that OPG or Bruce Power gets is respectively what the global adjustment is. So take that for all the generators, and then you have your total amount of global adjustment.

Mr. John Vanthof: So there are nuclear costs in the global adjustment as well?

Mr. Matt Gurnham: Yeah. I'd say that the majority of it would be nuclear costs.

Mr. John Vanthof: Okay. I don't pretend to be a hydro expert. I didn't study hydro on my John Deere. I studied—anyway.

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If a government decided that they wanted to put all the hydro costs through the rate base, there would be a massive increase in hydro rates, right? Speculatively, because you guys are into the predictive future: If a government decided, "Okay, we no longer want to have this thing"—and I don't think a government would, but if we wanted to eliminate this thing called the global adjustment and put everything through the rate base, that would be fully transparent, but rates would have to go up appreciably.

Mr. Jeffrey Novak: I think if they unwound the Fair Hydro Plan right now, then prices would go up by approximately 25%. Our report didn't actually refer to the global adjustment, because I think it's just kind of a construct of how the market works, like Matt said. There is an all-in cost for electricity, and some of it shows up on your bill as the market rate that you're paying and some of it shows up as the global adjustment. It's all the cost of electricity.

Mr. John Vanthof: Okay. I just want to return—and I just want to get this through my head again. I've been told by others that the global adjustment is simply green energy projects, and that's causing this whole global adjustment.

Mr. Jeffrey Novak: I'm going to say no.

Mr. Matt Gurnham: No, no, that is not what the global adjustment is.

Mr. John Vanthof: Could you just, in a bit more detail, outline to me what actual—not dollar for dollar. We don't need that; we don't have the time for that. But what would typically constitute the cost of global adjustment?

The Chair (Mr. Prabmeet Singh Sarkaria): Two minutes.

Mr. Matt Gurnham: It is exactly what I said before. In Ontario, there is a real-time electricity market. The price of electricity is set, basically, by the highest-cost generator that is being accepted into the market currently. Depending on what the level of the market price of electricity is and the total amount you need to pay all of these generators based on their contracts to get enough electricity to supply Ontario—the difference between that market price and the total cost is reflected in the global adjustment.

So there are two components. The market price could go up, and then the global adjustment would go down, and it could be vice versa. The fixed-cost thing—that is sort of what it is. A large component of it is fixed costs, but the real definition is the difference between the market price and the actual cost.

Mr. John Vanthof: And nuclear is a big part of that.

Mr. Matt Gurnham: Yes. I said before that it's the majority. I don't actually think it is the majority, but I think it is the largest component of all the different generation sources.

Mr. Peter Weltman: Why don't I just add one little point of clarification, if I have a second?

Mr. John Vanthof: Sure.

Mr. Peter Weltman: Effectively, the province is paying—there are electricity generators. Some of them have contracted prices that they can sell electricity. Some sell on the market. So there's a certain amount of money out there to guarantee a certain level of supply. The actual day-to-day fluctuation is the difference between the market price, and then the global adjustment makes up the difference.

Mr. John Vanthof: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): All right. Now we'll hand it over to the government side and Mr. Baber for 20 minutes of questioning. Thank you.

Mr. Roman Baber: I just want to follow up on something that was touched on by Mr. Downey with respect to the total cost of the plan, perhaps with Mr. Novak. Mr. Novak, the initial estimated total cost of the electricity refinancing was $45 billion—the total cost.

Mr. Jeffrey Novak: No. The $45 billion is the cost to the province of the Fair Hydro Plan, which has three components: the HST rebate, and then the electricity rate relief programs that were taken off the electricity ratepayer base and put onto the province base.

Mr. Roman Baber: My apologies. The total cost of the plan was initially estimated at $45 billion.

Mr. Jeffrey Novak: To the province? Yes.

Mr. Roman Baber: Yes. And the cost would increase if the province did not balance its budget, correct?

Mr. Jeffrey Novak: That's right.

Mr. Roman Baber: And we've confirmed that we do not have a balanced budget, right?

Mr. Jeffrey Novak: That is correct.

Mr. Roman Baber: So by implication, we're now two years into this scheme without a balanced budget, and that means that the total cost has already exceeded $45 billion. Is that correct?

Mr. Jeffrey Novak: No. So $45 billion is over 30 years. The estimate over the first couple of years would be higher by the cost of borrowing. The graph on page 7 would show the higher cost, based on what interest rates turn out to be.

Mr. Roman Baber: But if the province doesn't balance its books and is forced to borrow for the HST component or any other component, then the total cost would go up.

Mr. Jeffrey Novak: That's right. It's $45 billion over 30ish years—29 years—and for each year, we estimate how much that cost is. If you have to borrow that amount, we also estimate how much the interest cost would be. That would be the cost per year.

Mr. Roman Baber: So at this point, now that we're not balanced, we have to make up that difference. The cost at this time would have a revised cost that would be higher than $45 billion.

Mr. Jeffrey Novak: That's right, yes. If we're assuming that we would have to borrow the entire 30 years, then it would be a higher cost.

Mr. Roman Baber: Sorry, Mr. Novak, if we're assuming that we're in a budget deficit, then we would have to increase the estimated cost.

Mr. Jeffrey Novak: Correct.

Mr. Roman Baber: So the estimated cost is now, by your own definition, higher than $45 billion over the course of 35 years.

Mr. Jeffrey Novak: My apologies. If we were re-estimate it over the 30 years—all else being equal in terms of our assumptions—then it would be higher than $45 billion.

Mr. Roman Baber: So we have already exceeded the $45-billion figure.

Mr. Jeffrey Novak: Again, we haven't re-estimated it since we did our report in May 2017. We had a number of assumptions in our estimates. If we were to do it again—all else being equal—then, yes, it would be higher.

Mr. Roman Baber: And so it is now higher than $45 billion and growing.

Mr. Jeffrey Novak: All else being equal, yes.

Mr. Roman Baber: This is without accounting for any increased levels of electricity demand.

Mr. Jeffrey Novak: That's right. When I say "all else being equal," if we were to re-look at the whole cost of the plan, we would have to again take a look at the latest forecasts for demand etc. and other components of the plan.

Mr. Roman Baber: And so it now seems that your suggestion that, at the end of the day, the total cost over the 30-year span of the Fair Hydro Plan may in fact end up being somewhere between $60 billion and $90 billion. Given where the province is at today—that no longer seems like an unlikely proposition, sir.

Mr. Jeffrey Novak: In our report, we do note that if the province needs to borrow to fund its portion of the Fair Hydro Plan, we do say it's $69 billion to $93 billion, based on various interest rate assumptions.

Mr. Roman Baber: Given that we're continuing to borrow, it is more likely than not that we're probably going to get there.

Mr. Jeffrey Novak: We haven't balanced the budget yet, so—

Mr. Roman Baber: Thank you, Mr. Novak.

Mr. Weltman, at the commencement of your remarks, first of all, you complimented the Independent Financial Commission of Inquiry on its work and you reaffirmed their call for government transparency. Would you please speak to your remarks specifically vis-à-vis the context of the Fair Hydro Plan?

Mr. Peter Weltman: Well, I'm not going to reiterate the remarks. I agree with the tone of the report and that it was focused on transparency and the importance for the electorate to understand what government expenditures are in order to properly hold the government to account.

The Fair Hydro Plan: The manner in which it was implemented was a policy undertaken by the government. We had access to the baseline, the costs, the assumptions and, through our office, we were able to provide MPPs with an estimate of the total cost of the plan. I'm not going to comment on whether it was a good idea or a bad idea. We were able to do that for MPPs.

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Mr. Roman Baber: Would you be able to comment if, in your view, the proposed accounting scheme of the Fair Hydro Plan was transparent or not?

Mr. Peter Weltman: I think the AG is open to that. I think we found it complicated, but we managed to work our way through it.

Mr. Roman Baber: Thank you. Would you please perhaps speak in a broader context as to the transparency exhibited—or lack thereof—in the 2017-18 budget estimate and the 2018-19 budget estimate?

Mr. Peter Weltman: The government laid out its assumptions. We had issues with some of those assumptions, and we provided our own independent forecast on that basis. That's why you have here an independent office. That's what is important if you're trying to provide transparency to a legislative body: to create and support these independent offices.

Mr. Roman Baber: Mr. Weltman, I understand—in fact, in a document handed to me by my colleague, I understand that in December 2017 the FAO issued a fiscal outlook assessing Ontario's mid-term prospects in which the FAO warned that the government's approach reduced the financial transparency and reliability of Ontario's fiscal plan. Why did you feel it necessary to comment in such fashion?

Mr. Peter Weltman: I think as I said before, we don't advocate for anything except for transparency. I think that was our way of advocating for budget transparency. I think we've also cited, too, in our outlook—the 2018 EBO, the economic and budget outlook—where we were out there and we said that the 2018 Ontario budget "did not adopt the Auditor General's recommended accounting framework, reducing the clarity and reliability of Ontario's fiscal projections." So we're not afraid to call a government to account if we think that they have done things that aren't transparent. We've done it before.

Mr. Roman Baber: And you believe that the former Liberal government has been less than transparent.

Mr. Peter Weltman: Well, that's a general statement. I think, with regard to some of the things we've spoken to specifically—fair hydro and producing a statement that the Auditor General had to qualify—yes, in that case, that was not a transparent and appropriate way to present financial statements.

Mr. Roman Baber: Thank you. Mr. Novak, have you discussed some of the concerns raised in your spring 2017 report with any government officials? Have you discussed any of the findings?

Mr. Jeffrey Novak: Well, I think—sorry. The answer is yes. On a high level, whenever we do a report, we ask the government for information, the civil service. We get that information and we draft a report. We always share a draft of our report with the civil service. When we do, we're interested in factual comments. Also, we have disclosure-of-information obligations through our act and through the OICs that allow us to get information, so we work with them to ensure that we're not disclosing information that we're not allowed to disclose. Through that process, we shared a draft of our fair hydro report with the civil service and they provided us with comments.

Mr. Roman Baber: Did you express any concerns with respect to the levels of indebtedness or the unnecessary $4 billion worth of additional interest expense?

Mr. Jeffrey Novak: Not specifically to them. They saw a draft of our report. I think the report speaks to that.

Mr. Roman Baber: Did the Liberal government address any of those concerns to the FAO in return?

Mr. Jeffrey Novak: When we shared the draft with them, at the highest level they had three main concerns. One was how we were addressing the accounting uncertainty; second was some technical stuff around our interest rate assumptions; and third, how we were treating the electricity rate relief programs. I'm happy to expand.

Mr. Roman Baber: Nonetheless, I would assume that you stand by your findings and your conclusions.

Mr. Jeffrey Novak: That's right. In terms of the accounting, like we've said a few times, our position is that the Legislature has asked the Auditor General to opine on whether the province's books meet public sector accounting standards. Whenever we look at a specific costing issue or the budget plan in general, we're applying those accounting standards. But when we see something that's new or novel or uncertain to us, then we'll flag it, which is what we did in this report. We showed it both ways, and we asked MPPs to ask the Auditor General for a final opinion on what the proper accounting treatment was.

That was our position in this report. We talked to the government about it, and this was our final—our position didn't change.

Mr. Roman Baber: Subject to no more questions by my colleagues—

Mr. Stan Cho: I have a couple, if that's okay.

The Vice-Chair (Mr. Doug Downey): Mr. Cho.

Mr. Stan Cho: To Mr. West, Mr. Weltman and Mr. Novak: I feel like I've seen you more in the last two weeks than my fiancée. Nice to see you again.

I have three basic questions. I know there is a bunch of experience both in the public and in the private sector here on the panel today. I just want to know—let's take the decision to borrow through the OPG Trust as an example: Have you seen something like that in other jurisdictions or in the private sector before, those types of financial decisions?

Mr. Peter Weltman: I haven't, but I wouldn't have been looking for them. However, I would caution that I did spend some time in financial services, and there were lots of interesting financial constructs that I did come across.

Mr. Stan Cho: My second question is on the decision to borrow off of the OPG Trust. Did you see any benefits for this for ratepayers, other than the arguable short-term relief for hydro rates?

Mr. Jeffrey Novak: I would say no.

Mr. Stan Cho: Okay. The final question: I know you've said you advocate for fiscal transparency, and you agreed with the tone of the report we're discussing. These are difficult to quantify, so I'm going to try to quantify something along those lines, on a scale of 1 to 10—and I know this is a very simplistic metric. Financial prudence, I think, falls under that subjective grey category of the unquantifiable, but on a scale of 1 to 10, where do you feel that the decision to borrow off of the OPG Trust ranks, with 1 being financially very imprudent and 10 being financially prudent?

Mr. Jeffrey Novak: I'm going to let the officer answer that one.

Mr. Stan Cho: Please.

Mr. Peter Weltman: I signed up for it.

I'm going to take it back to my team and come back to you with an answer on that one, so I can't really put a rating on it. We were able to get a report out, which made transparent things that others may not have seen, and I'm proud that we were able to do that.

Mr. Stan Cho: Okay. So I'm not getting the "1" on the "1 to 10" answer, I guess. Thank you very much.

The Vice-Chair (Mr. Doug Downey): Mrs. Martin.

Mrs. Robin Martin: Sorry, I just had one more question. In your opening statement, Mr. Weltman, you mentioned the lack of detail in the recovery plan. You were talking about, I think, that the commissioners had recommended some changes to the FTAA. But can you elaborate on what you mean by the lack of detail in the recovery plan? I was just going over my notes.

Mr. Peter Weltman: Sure. I'll start, and Dave can fill in.

Effectively, what we saw was a recovery plan, and we've seen this federally as well, where there was a plan and there were some numbers put down on paper, and that was the plan. But if you look more deeply at the plan, you realize that to reduce spending to that level would have been almost unprecedented. If you look historically at how much spending would have had to have been reduced, relative to what had actually been accomplished, it would have been a real outlier.

That's what I mean by saying it wasn't necessarily realistic. It didn't provide detail as to how they were going to get spending growth down that much, that quickly, when it had never really been done before.

Mrs. Robin Martin: So, if I understand you correctly, they provided numbers as to how they were going to get back to balance, but not the means—

Mr. Peter Weltman: There's nothing in behind the numbers to say, "Here is how we were going to get from 4% growth to 2.5% growth," when we take into account population growth and inflation and that sort of thing, and demographics.

Mrs. Robin Martin: So, just the numbers didn't really tell the story of how they would achieve those numbers.

Mr. Peter Weltman: Yes. There were numbers, and there was nothing there to substantiate how those numbers were going to be achieved. We looked at them, and we said, "These are outliers. These are"—

Mrs. Robin Martin: Not realistic, maybe?

Mr. Peter Weltman: As I've said earlier, governments can do whatever they put their minds to, but it hadn't been done before.

Mrs. Robin Martin: These numbers didn't reflect the kind of deficit measures that had been taken before to change those numbers?

Mr. Peter Weltman: Generally speaking, no. There were certain circumstances where, yes, and we saw some periods here in government, historically, where there had been significant cuts, but overall, no.

Mrs. Robin Martin: Okay. Thank you. That's it.

The Vice-Chair (Mr. Doug Downey): Okay. Are there any other questions? There are about three minutes left.

Mr. Roman Baber: No. Thank you, Chair.

The Vice-Chair (Mr. Doug Downey): Okay. We're at a decision point where we were planning to go in camera in about 10 minutes. We can do five and five, if you want. Ms. Fife?

Ms. Catherine Fife: Actually, we had no further questions. We look forward to your report following the fall economic statement and to see where your deficit number is at that point in time. Thank you very much for being here today.

Mr. Roman Baber: Thank you, gentlemen.

The Vice-Chair (Mr. Doug Downey): Thank you, then, for attending.

We'll now go in camera.

The committee continued in closed session at 1720.

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