Fedeli **Focus on Finance**

Confidential Advice to Cabinet: "No Plan"

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In the 2013 Ontario budget, the current government went to great pains to stress that it is "on track" to balance the province's books by 2017-18. In fact, the Premier and the Finance Minister have repeated this in the Legislature and put it in writing as recently as this month.

However, there is much evidence that casts serious doubts about the validity of this claim. For instance, as raised in a previous edition of *Focus*, there was no mention in the 2013 Budget of the $6 billion of savings the government had previously booked from an across-the-board public sector wage freeze. There is no explanation as to whether this was still being factored into the government's planning, or conversely, if it wasn't, how the government plans to make up for that $6 billion discrepancy.

The Standing Committee on Estimates received thousands of internal documents from the Ministry of Finance and from Cabinet that confirm the government is NOT being honest about the state of the province's finances. This issue will highlight many other budget shortfalls that have been uncovered through these newly-released documents. This will prove that what the government is saying publicly about eliminating the deficit, and what they discuss internally, are two very different things.

> *For 2014-15 and 2015-16, **not on track** to meet 2012 Budget deficit targets.*
>
> *– Government of Ontario (Ministry of Finance) Internal Document, March 2013*

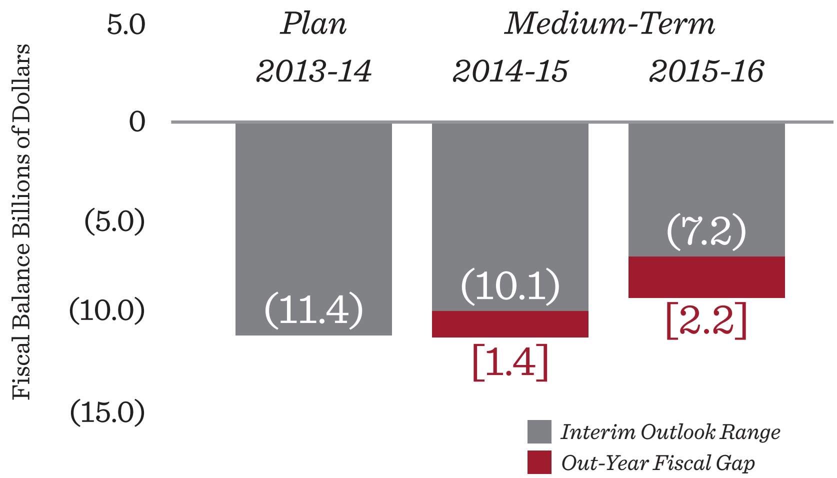
vs.

> *The government is on track to meet the steadily declining deficit targets outlined in the 2012 Budget and achieve a $0.5 billion surplus in 2017-18.*
>
> *– Government of Ontario (Ministry of Finance) News Release, May 2, 2013.*

In late February 2013, the Ministry of Finance clearly identifies that the government is at least $3.5 billion off the pace needed to balance the budget by 2017-18 ($1 billion in 2014-15, and $2.5 billion in 2015-16) (See Appendix A). It states that the "Fiscal Gap" stems from "existing ministry Results-Based Plans falling short of managing within allocations." As this chart illustrates, only two days after that assessment, the number is revised upward to $3.6 billion.

Cabinet was well aware of this $3.6 billion gap when they went on a retreat on the third week of March, 2013. But instead of taking decisive action to reduce this massive hole in their budgeting, Cabinet discussions actually resulted in an *increase* to the shortfall.

Out-Year Fiscal Gap



Source: Ontario Ministry of Finance, March 1, 2013

The March 24th slide deck below states the discrepancy had grown to $4.5 billion ($1.9 billion in 2014-15 and $2.6 billion in 2015-16). A document dated May 2 – the day the budget was presented – shows that the "multi-year expense plans remains largely unchanged" from a Ministry wrap-up meeting that followed. That means that the government knew when it presented its budget that this shortfall existed, yet publicly insisted they were "on track" to balancing.

It needs to be noted that the difference in the shortfall pre- and post-cabinet retreat – $900 million – is the same value of concessions offered to the Third Party in order to ensure passage of the budget (Canadian Press, May 2, 2013). It raises the question of whether the government and Third Party already had a budget deal in place in March 2013, if not earlier.

Perhaps equally troubling is the fact there are still no projections here for 2017-18. That could in fact mean the discrepancy to balance is even greater than the $4.5 billion stated in these documents.

In a previous *Focus* edition, we highlighted the fact that the Fall Economic Statement failed to include the medium-term outlook, which is traditional. This would have included tables showing how revenue, spending, and debt will look for the next three years. Now, the Finance Minister announced he would not be presenting the Third Quarter results by the February 15 deadline as required under the Fiscal Transparency and Accountability Act, 2004. It's been several months since the government has reported real numbers or any financial details. Thanks to these newly-discovered documents, we begin to understand why.

Fiscal Outlook 2014-15 and Beyond

- No plans in place to achieve out-year deficit targets from 2012 Budget
  - Cabinet retreat outcomes that increase 2013-14 spending also add to out-year gap
  - Overall fiscal gap now at $1.9B in 2014-15 and $2.6B in 2015-16

Source: Ontario Ministry of Finance, March 24, 2013

Key Actions to Eliminate the Deficit

Commercially Sensitive Information

- Slowing growth rate of health care spending to an annual average of 2.0 per cent

Source: Ontario Ministry of Finance

On several of the versions of this slide, parts were redacted.

Key Actions to Eliminate the Deficit

- **Reducing pension expense through agreements and pension reforms**
- **No funding for incremental compensation increases for new collective agreements. Salaries for designated groups frozen until 2017-18**
- Slowing growth rate of health care spending to an annual average of 2.0 per cent

Source: Ontario Ministry of Finance

This version failed to be redacted, revealing there was nothing Commercially Sensitive, just politically sensitive.

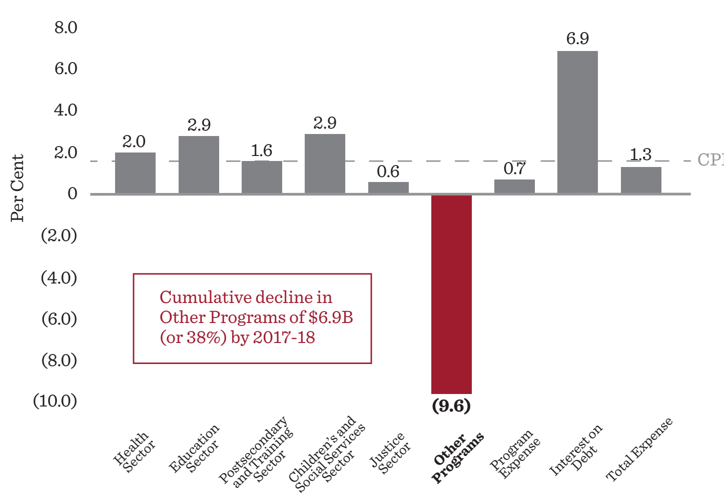
There's also another issue the government attempted to hide in these documents, but ultimately failed to do so. All mentions of public sector compensation – even the most benign mentions – were blacked out in these documents, labelling it as "Commercially Sensitive Information". However, they missed blacking-out a couple versions. By comparing the two documents above, it's clear the government was attempting to keep the fact it will need to extend public sector wage restraint past the existing two years it has publicly committed to, from the public sector unions and the public at large.

In another presentation prepared for cabinet shortly after the budget in early May, the gravity of the situation becomes apparent. Two scenarios for program growth expense are presented by Finance officials. They indicate that in order to reach balance, program spending reductions of $6.1 billion to $6.9 billion will be required outside of the core ministries identified (Health, Education, Post-Secondary, Justice, Social Services).

One slide ends with "Changes since 2012 Budget show a deterioration in the fiscal outlook beyond 2013-14 (based on current economic information)."

Five-Year Program Growth Scenario B

(2016-17 and 2017-18)



Source: Confidential Advice to Cabinet

The Premier's Briefing

In late January 2013, Ministry of Finance officials prepared a lengthy briefing package for whoever would be chosen as new leader and Premier.

A cover letter dated February 13, 2013 from Secretary of Cabinet Peter Wallace is addressed to "Premier" Kathleen Wynne, and three of her advisors.

In that package is an appendix which included a "Summary of Status of Key Items with Fiscal Implications." That list included the Ontario Northland divestment, LHIN reform legislation, reforms to physiotherapy services, and casino modernization.

The package included a document (below) that later triggered a further Auditor General Report. The document stated the divestment of Ontario Northland would actually cost up to $790 million; much different than the $265 million the government claimed it would save in the 2012 budget. The Auditor General confirmed in December, that in fact total divestment of Ontario Northland would cost $820 million. The sale would leave a $1.1 billion dollar gap in the budget; not proceeding with the sale will leave the $265 million savings out of the budget, plus the millions spent on the sale, to date.

That same document also refers to the government's casino modernization plan. The government had plans to establish 29 new casinos across Ontario and expected to increase Ontario Lottery and Gaming revenues by more than $1 billion a year by 2017-18 as a result. It noted two major risks to achieving that – the "potential delay in establishing a GTA casino", and the "potential relocation of slots from Woodbine Racetrack". As we now know, a GTA casino site still hasn't been selected, and may never happen, and the government has backed away from its rapid casino expansion plans. The forecasted revenue will not materialize in the 2017/18 budget.

The briefing package also lists 25 new spending items approved that weren't included in the 2012 Budget or Fall Economic Statement, and also makes mention of "non-tax revenue proposals." A separate document made public through the Standing Committee on Justice investigation into the Mississauga and Oakville gas plant cancellations listed nearly 50 new fee proposals the government was considering.

Item	Description
Modernizing OLG's Gaming Operations and Lottery Sales Channels (MOF)	It is expected that through implementing the OLG's modernization initiative, OLG will generate more than $600M in additional revenue between 2012-13 and 2014-15 and more than $1B per year by 2017-18. The two major risks related to achieving projected financial targets include: 1. Potential delay in establishing an interim Greater Toronto Area (GTA) casino. 2. Potential relocation of slots from Woodbine Racetrack to an alternative location.
ONTC Divestment (MNDM)	MNDM expects to incur higher than projected transition costs as part of the divestment process, which may take longer than originally proposed. The current MNDM/Infrastructure Ontario high range estimate for divestment costs is $790M. How much of these costs fall into 2013-14 and 2014-15 is not yet known.

Source: Confidential Advice to Cabinet, January, 2013

Conclusion

The $4.5 billion shortfall uncovered in these documents provides a much more believable explanation as to why the government appears so eager to raise provincial gasoline and corporate taxes.

It also explains why the government failed to include the medium-term fiscal outlook in its 2013 Fall Economic Statement, and why the Finance Minister has elected not to report the Third Quarter results before presenting his 2014 budget.

It may also explain the recent move to change health benefit payments to retired Ontario Public Service employees after 2017.

The documents make it clear the government has no plan to balance the budget by 2017/18.

Key Questions

Why has the government insisted it is “on track” to balance the budget when Ministry of Finance documents show this isn’t the case?

What steps does the government plan to take to address their $4.5 billion budget shortfall?

Does the government plan to raise taxes and/or fees to pay for this $4.5 billion shortfall? If so, which ones?

Will the government table its medium-term fiscal outlook in the 2014 budget?

Why is the government trying to hide its plans for extending public sector wage restraint from public scrutiny and from their public sector union partners?

Did the government and Third Party already have a budget deal agreed to in March of last year, two months before its passage, that increased the fiscal shortfall to $4.5B? Is a similar deal already done for the 2014 budget?

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