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Standing Committee on Public Accounts

Comité permanent des comptes publics

2018 Annual Report, Auditor General:

Treasury Board Secretariat
Ministry of Finance
Ontario Financing Authority
Independent Electricity System Operator

Rapport annuel 2018, vérificatrice générale :

Secrétariat du Conseil du Trésor
Ministère des Finances
Office ontarien de financement
Société indépendante d'exploitation du réseau d'électricité

1st Session
42nd Parliament

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Hansard Reporting and Interpretation Services
Room 500, West Wing, Legislative Building
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CONTENTS

Wednesday 3 April 2019

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 3 April 2019

Mercredi 3 avril 2019

The committee met at 1231 in room 151, following a closed session.

2018 ANNUAL REPORT, AUDITOR GENERAL

TREASURY BOARD SECRETARIAT

MINISTRY OF FINANCE

ONTARIO FINANCING AUTHORITY

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

Consideration of chapter 2, public accounts of the province.

The Chair (Ms. Catherine Fife): Good afternoon. My name is Catherine Fife. I'm the Chair of public accounts. I'm going to be calling this meeting of the Standing Committee on Public Accounts to order.

We are here today to begin consideration of the public accounts of the province, chapter 2, from the 2018 annual report of the Office of the Auditor General of Ontario. I would like to welcome representatives from the Treasury Board Secretariat and the Ministry of Finance, as well as the Ontario Financing Authority and the Independent Electricity System Operator. Thank you all for being here today to answer the committee's questions.

I would invite you to each introduce yourselves for Hansard before you begin speaking. You will have 20 minutes collectively for an opening presentation to the committee. We will then move into the question-and-answer portion of the meeting, where we will rotate back and forth between the government and official opposition caucuses in 20-minute intervals.

I would invite you to begin when you are ready.

Ms. Karen Hughes: Great. Good afternoon, and thank you to the members of the committee for inviting us to be here today. My name is Karen Hughes and I'm the interim deputy minister of the Treasury Board Secretariat. With me from the Treasury Board Secretariat is acting provincial controller Gary Wuschnakowski. Sitting beside me at the table are my colleagues Greg Orencsak, the Deputy Minister of Finance, and Peter Gregg, the president of the Independent Electricity System Operator. At your invitation, we also have representatives here today from the Ontario Financing Authority; I think I saw Gadi Mayman back there.

We welcome this opportunity to appear before the committee to provide information and to answer your questions regarding the consideration of chapter 2, public accounts of the province, of the Auditor General's 2018 annual report.

As you know, Ontario's public accounts present the government's consolidated financial statements. They give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the budget. The Office of the Auditor General plays a crucial role in auditing and reporting on the province's consolidated financial statements.

This committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance. Within the Treasury Board Secretariat, the Office of the Provincial Controller Division—we like to call them OPCD—helps the province to ensure transparency and accountability in its financial reporting through preparing the public accounts.

I would like to take a moment to speak specifically about the role of the ministry officials who appear before you today. As you know, we're members of the Ontario public service, or the OPS, a professional non-partisan body. Our role is to support and provide impartial advice to the government of the day. As public servants, we carry out the decisions and policies of the government and work to ensure that activities are conducted in an open, fair and transparent manner, in compliance with professional codes of conduct. It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment and provide our best objective advice to the elected government to support its decision-making.

The province's consolidated financial statements are prepared in accordance with Canadian public sector accounting standards, also referred to as PSAS. These standards are set by an independent standards-setting body in Canada focused specifically on the public sector, the Canadian Public Sector Accounting Board. These standards are used by all senior governments in the country and support informed decision-making and accountability.

I'd like to now turn to some of the accounting updates that committee members will notice between the public accounts of 2016-17 and those for 2017-18.

As committee members will recall, in 2017, the Auditor General issued a qualified opinion on the 2016-17 public accounts of the province. The auditor identified two reasons for that qualified opinion: These were the province's valuation of net pension assets and the inclusion of the Independent Electricity System Operator's market accounts in the province's public accounts.

At that time, the auditor also identified the use of rate-regulated accounting, authorized under the Fair Hydro Plan legislation, under "other matters" as a concern. Although the use of rate-regulated accounting did not result in a material impact on the consolidated financial statements for the 2016-17 public accounts, the auditor noted that the financial statements of the province may become misstated in a future period. This was the context when the government assumed office following the general election in June 2018.

As you know, shortly after being sworn in, the new government sought to review and resolve these outstanding issues. In July 2018, the Independent Financial Commission of Inquiry was struck. Chaired by former BC Premier Gordon Campbell, the commission included accountant Al Rosen and long-time federal civil servant Michael Horgan. The commission had a mandate to perform a retrospective assessment of the government's accounting practices and provide an opinion on the province's budgetary position, as compared to the position presented in the 2018 budget, in order to establish the baseline for future fiscal planning.

The commissioners made 14 separate recommendations to the province, many of which were relevant to the preparation of the 2017-18 public accounts, and I'll highlight two specific recommendations to the committee.

The first one was that the province adopt the Auditor General's proposed accounting treatment for any net pension assets of the Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan. This was to be done on a provisional basis until an agreement between the province and the Auditor General is reached.

The second recommendation was that the province adopt the Auditor General's proposed accounting treatment for the global adjustment refinancing, which was a major component of the Fair Hydro Plan.

These recommendations echoed the recommendations made by the Auditor General and also highlighted the importance of these issues within the 2017-18 public accounts. The government accepted both of these recommendations, and the 2017-18 public accounts reflect those changes.

The Independent Financial Commission of Inquiry provided guidance on resolving the valuation of the net pension assets and the accounting treatment of the former Fair Hydro Plan; however, the commission was silent on the inclusion of the IESO market accounts. Following internal deliberations and based on the Auditor General's recommendation, the province decided to remove the IESO market accounts from the public accounts. This change resulted in no change to the province's bottom line, adding neither additional revenue nor expenses.

We believe that, collectively, these decisions were instrumental in the unqualified or clean audit opinion issued by the Auditor General on the 2017-18 public accounts. However, that does not mean that the auditor doesn't have further recommendations for the Treasury Board Secretariat. There are two recommendations in chapter 2, public accounts, that I'd like to address.

The first recommendation is on the government's use of external advisers for accounting purposes. Specifically, the recommendation states the government should notify the Office of the Auditor General and request its comment when a ministry, government agency or crown-controlled corporation consolidated into the financial statements of the province proposes to engage an external adviser to provide accounting advice. It goes on to state that the Office of the Auditor General should also be consulted when any of these entities plan to engage and/or retain the same external adviser for both accounting and auditing services.

I'm happy to report that the Treasury Board Secretariat has implemented instructions across the government to collect information related to the contracting of external accounting advisers. This will support proactive notification and consultation with the Auditor General's office when ministries, consolidated agencies and crown-controlled corporations propose to engage an external adviser for accounting advice.

1240

Moving to the third recommendation, dealing with prescribed accounting methods through legislation, the province remains committed to preparing its financial statements in accordance with generally accepted accounting principles. This will provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users. The 2017-18 public accounts follow public sector accounting standards, and as I mentioned earlier, they received an unqualified or clean audit opinion from the Auditor General.

Before I hand it off to my colleagues, let me state that we take our responsibility at the Treasury Board Secretariat to provide a complete and transparent account of the province's finances very seriously. We know how important this responsibility is to the government, the Legislature and to the people of Ontario.

Again, I want to thank the Auditor General and her staff for the 2018 annual report, and specifically her recommendations in chapter 2. I also want to thank again the members of the Standing Committee on Public Accounts for inviting us here today to discuss chapter 2 in greater detail.

With that, I'll now hand it over to Deputy Orencsak to speak to the parts of chapter 2 best addressed by the Ministry of Finance.

The Chair (Ms. Catherine Fife): Thank you. Just to let you know, there are 10 minutes left.

Mr. Greg Orencsak: Great. Thanks very much, Madam Chair. My name is Greg Orencsak. I'm the Deputy Minister of Finance and the chair of the Ontario Financing Authority. I'm pleased to be here to discuss chapter 2, "Public Accounts of the Province." In particular, I welcome the opportunity to address Ontario's debt burden and credit ratings.

I know that the Auditor General is in attendance and I would like to thank her for her work as an independent officer of this assembly. As my colleague Karen pointed out, the Auditor General and her office play a vital role in helping to ensure value for money in the public sector and in working with both of our ministries as part of the Office of the Auditor General's annual audit of the province's consolidated financial statements.

As reported in the 2018-19 third quarter finances, the government's most recent economic and fiscal update, Ontario owes more than one third of a trillion dollars in net debt. In 2018-19, net debt is forecast at $346 billion and interest payments to service that debt are forecast at $12.5 billion. The net debt-to-GDP ratio is projected to be 40.4% in that fiscal year. That is 0.1 percentage point lower than the 40.5% forecast in the 2018 fall economic statement, and 0.4 percentage point lower than the revised Independent Financial Commission of Inquiry's 40.8% forecast referenced in the 2018 fall economic statement.

The Auditor General and the Independent Financial Commission of Inquiry both highlighted the province's debt burden in their past reports. I'm pleased to say that the government has taken note of their concerns. This reflects the collaborative relationship that the government has been fostering with the Auditor General's office over the past number of months to build confidence in Ontario's finances and an overall commitment to fiscal transparency and accountability.

In line with recommendations by both the inquiry and the Auditor General's report, the government committed in the 2018 fall economic statement to develop and make public a long-term debt burden reduction strategy as part of its plan to improve Ontario's fiscal health. This strategy will include a target and timeline to reduce the net debt-to-GDP ratio.

The government has already demonstrated that it is taking steps to address the fiscal situation. With the release of the 2018-19 third quarter finances, the government is now projecting a deficit of $13.5 billion. This represents an improvement of $1 billion from the outlook presented in the 2018 Ontario Economic Outlook and Fiscal Review, thanks in part to stronger-than-forecast economic growth. It is also a $1.5-billion improvement from the $15-billion deficit identified by the Independent Financial Commission of Inquiry.

The government recognizes that the rise in the net debt-to-GDP ratio is a concern that needs to be addressed. The commission's recommendations are informing how the government plans to improve that ratio. The net debt-to-GDP ratio encompasses the proper accounting of net pension assets and projected costs of the global adjustment refinancing, as recommended by the commission.

The rise in the net debt-to-GDP ratio has factored into the six times that the province has been downgraded by credit rating agencies over the past decade, reinforcing how important it is for Ontario to develop a meaningful strategy to manage its debt burden.

The Ontario economy has performed well in recent months, with employment advancing by 132,000 net new jobs from June 2018 to February 2019. The unemployment rate declined to 5.6% in 2018, its lowest annual rate since the late 1980s.

Ontario's real GDP is estimated by private sector economists to have grown by 2.3% in 2018, above the 2% forecast in the 2018 fall economic statement. As of March 1, private sector forecasters, on average, expect growth of 1.8% in 2019, slightly lower than projected at the time of the 2018 fall economic statement.

Overall, my ministry is projecting steady growth in Ontario's economy, though it is expected to moderate from recent years, mainly due to a less supportive external environment, including slowing US growth and uncertainty around trade negotiations. Given this challenging global environment, the government continues to foster an environment that encourages investment and job creation.

In closing, I want to acknowledge that the government has accepted the recommendations of the Independent Financial Commission of Inquiry, including setting an appropriate target and timeline to reduce the province's ratio of net debt to GDP. It is my view that the government is committed to developing a transparent and accountable debt-burden reduction strategy, one that includes an improved net debt-to-GDP ratio and a plan to strengthen the province's credit standing.

The upcoming 2019 budget, which is being released next Thursday, on April 11, will provide more detail on the province's economic, fiscal and debt-management outlook.

I want to thank the members of this committee for inviting us to be here today to discuss these matters, and I would like to once again thank the Auditor General for her work and her advice. I will turn it over to Peter to finish up.

The Chair (Ms. Catherine Fife): Mr. Gregg, you have four minutes left.

Mr. Peter Gregg: Thank you. I'll do my best to get through.

So, thank you. Good afternoon. My name is Peter Gregg. I am the president and CEO of the Independent Electricity System Operator, or the IESO. I am pleased to be here today to speak to the IESO's role as it relates to matters discussed in chapter 2 of volume 1 of the Auditor General of Ontario's 2018 annual report. Joining me today is Barb Anderson, our chief financial officer and vice-president of corporate services, who joined the IESO in June of last year.

I would like to take a few moments to address the changes to our accounting practices since we last appeared before this committee in February of 2018. The IESO decided to adopt rate-regulated accounting in early 2017. Reviewing our accounting policies is something we do regularly, although the catalyst at that time for this particular review was the government's pursuit of the Fair Hydro Plan.

Since that time, there have been some significant developments that led to adjustments to the IESO's accounting policies. Last fall, as Karen mentioned in her remarks, the Ontario government announced that the fair hydro program would be structurally revised such that the fair hydro variance would be funded from the tax base rather than from the rate base. The government also released the 2017-18 public accounts, and findings of the Independent Financial Commission of Inquiry, in which it announced that it would adopt all of the Auditor General's proposed accounting treatment recommendations, including accounting for the fair hydro variance, without recognizing rate-regulated accounting upon consolidation.

To reflect changes in government policy, which is consistent with the recommendations laid out by the Auditor General, the IESO adjusted its accounting policies to no longer use rate-regulated accounting in 2018.

The IESO also made changes to how its financial statements are presented. For example, the IESO's practice of consolidating market accounts, which document the flow of money within the electricity market, with our corporate accounts has changed. Our market accounts are now made public. Making the market accounts a separate set of publically available financial statements ensures they remain transparent and makes them more relevant and reliable for users of these statements.

1250

Another area where we made changes is to the discount rate used to value the IESO's pension and other post-employment benefit plans. Our discount rate has been adjusted to no longer reflect the expected rate of return on plan assets. Instead, our discount rate now reflects the IESO's estimated cost of borrowing, which is consistent with the Auditor General's recommendations. I do thank the Auditor General and her staff for that advice.

The IESO also appointed the Auditor General as our auditor for the fiscal year 2018. I'm pleased to report that upon examination of our 2018 financial statements, the Auditor General and her office concluded that the statements present fairly in all material respects the financial position of the IESO.

We look forward to answering any questions you may have.

The Chair (Ms. Catherine Fife): That was perfect. Thank you very much.

As you know, we'll move in 20-minute rotations until we get closer to the 2:40 timeline, and then we'll divide the time evenly. This week's question set starts with the official opposition. MPP Morrison.

Ms. Suze Morrison: Thank you. I'd like to direct my first question to—sorry if I mispronounce this—Mr. Orencsak?

Mr. Greg Orencsak: Orencsak.

Ms. Suze Morrison: Orencsak; thank you.

I'd like to start first with the pension assets on the consolidated financial statements. We see here that the pensions will have been removed off of the consolidated financial statements on a provisional basis until an agreement is met with the pension plans. I'm wondering if you can give us a bit of context as to if there's an estimated timeline for those agreements to be reached, when you would expect it to be possible for that asset to potentially come back onto the public accounts and if you have a sense of what the estimated valuation of that would be.

Mr. Greg Orencsak: I'm actually going to ask my colleague Karen to answer that question, because it pertains more closely to the work and responsibilities of the Treasury Board Secretariat.

Ms. Suze Morrison: Okay. Thank you so much.

Ms. Karen Hughes: Thanks for the question. I'll do my best to answer it. I think the first part is, we're continuing to work with the Office of the Auditor General, the Ministry of Education and the Ministry of Finance to look at the accounting treatment for the teachers' pension plan and to look at what opportunities exist to look at some of the issues that are going on in the pension sector right now with respect to some of the changes that are being made by things like the Canada Pension Plan going forward.

We have that work under way. I can't give you an estimated timeline because I think it's pretty complex work that's required. It would also require discussions with the teachers' pension plan itself. All those kinds of pieces of work are in their early stages, so we don't have a final timeline in order to be able to complete that work at this point in time.

The Chair (Ms. Catherine Fife): Thank you. The auditor would also like to add some commentary.

Ms. Bonnie Lysyk: Just to add a little bit of clarity, in terms of the financial statements for the year ended March 31, 2018, the pension accounting treatment was corrected by the government and we did issue an unqualified opinion. So the pension actually is properly recorded in the government statements.

In terms of the workings that we have with Treasury Board and the Ministry of Finance, it will be to see whether or not there are reductions in contributions or whether or not there is an increase in benefits that will affect the impact of the pension plan on the government's statements going forward.

In terms of the policy for pension accounting, the government did adopt the accounting policy that we had recommended. The provisional really does relate to should there be changes in the fact pattern that will impact whether or not there is an asset or is not an asset on the government's statements. That's something that my team and the Treasury Board team will look at on an ongoing basis. But just so there's clarity, the pensions are recorded in the government's statements correctly as at March 31, 2019, and we're really appreciative of that decision.

The Chair (Ms. Catherine Fife): MPP Morrison, continue.

Ms. Suze Morrison: Thank you so much. I'd like to direct the next question at the IESO, Mr. Gregg. When the auditor conducted a special audit of the IESO in early 2018—can you walk us through that audit process a little bit, and can you share that all of the information that might have affected your financial statements was shared with the audit in 2018 when that process happened?

Mr. Peter Gregg: This is the audit in 2018 as opposed to the last year's financial audit; correct?

Ms. Suze Morrison: Yes, correct.

Mr. Peter Gregg: Yes. At that time, the board had appointed KPMG as our auditor, and the Auditor General's office came in and also did an audit on our finances. Our approach to that was to ensure that all documentation requested by both KPMG and the Auditor General's office was met as promptly as possible and that all documentation that went to one also went to the other to ensure consistency. We had dedicated staff to ensuring that documents were presented as quickly as possible and did our best to co-operate with the Auditor General's office.

Ms. Suze Morrison: In the audit report, there was some concern about lack of co-operation from IESO in that year. What steps has the IESO taken to ensure better co-operation with the Auditor General moving forward?

Mr. Peter Gregg: Sure. I think that the best way I can answer that is the decision that was made for last fiscal year to have the Auditor General appointed as our auditor. We previously, as I mentioned, had KPMG. We asked the Auditor General to be the sole auditor of our accounts for last year. I would characterize that as a very productive, respectful exchange on both sides. I'm pleased with the clean audit opinion that we received from the Auditor General.

Ms. Suze Morrison: Thank you.

The Chair (Ms. Catherine Fife): MPP Shaw.

Ms. Sandy Shaw: We met once before, because I was on the Select Committee on Financial Transparency. As you stated in your statement here, a lot has changed since then. There's a lot that has transpired. My question would be—at the time, you did testify, or deputed, that you felt that your obligations at the time were to your board of directors. At the time, the board of directors was perhaps going in a different direction in terms of the rate-regulated practices. Can you just be more specific about what has changed internally with your governance? I know you have a new CFO, but what really changed to make you see that this wasn't an appropriate accounting treatment?

Mr. Peter Gregg: I think a lot has changed. I would start also by saying, at the time that rate-regulated accounting was adopted, neither Barbara nor I were in our roles at the IESO, so it was prior to us joining. First-hand knowledge of that decision is limited to what we've learned subsequently.

Ms. Sandy Shaw: Okay. Fair enough.

Mr. Peter Gregg: But to focus on the change away from rate-regulated accounting: A lot in the external environment changed. Post-election, as we know, the special inquiry into financial transparency occurred. We had an opportunity to appear before that group and give evidence. The government made a decision to agree with the Auditor General's report in terms of funding the Fair Hydro Plan out of the tax base rather than the rate base. That's probably the most significant change that impacted us, that there was no longer an obligation from ratepayers for that; it was funded from the tax base.

Last year, in September, following that decision, the board made a decision to move away from rate-regulated accounting and then, subsequent to that, appointed the Auditor General for the 2018 year.

Ms. Sandy Shaw: Okay. Thank you. I want to go back to the tax base versus the rate base. But in the interim, I wanted to know: You had the Auditor General as your accountant for this fiscal. Will that be the same going forward?

Mr. Peter Gregg: Not necessarily. We've issued an RFP for future audit services, and that RFP is still open. It's an active RFP, so we will be making a decision in the not too distant future.

Ms. Sandy Shaw: Maybe I'm confusing things, but you talked about, earlier—one of the recommendations was to make clear with the Auditor General when any entity consolidated into the financials is using outside auditors. Is that a piece of how the auditor will be kept in the loop on that? Or maybe you could answer how, practically, the Auditor General will be informed of using outside auditors.

Interjections.

Ms. Sandy Shaw: I mean, you're going to get a new auditor or have an RFP out for a new auditor, and one of the recommendations is that the Auditor General remains in the loop, or informed of that, and so, in a practical sense, how will that happen?

Mr. Peter Gregg: I'll start with that. Certainly, the commitment from us is to make sure that that line of communication is open, and we understand the requirement to consult with the Auditor General and her office. It's certainly a commitment that we will certainly do that in the future.

Ms. Sandy Shaw: Will the Treasury Board have a role in that?

Ms. Karen Hughes: Sure. We've issued a directive out to all of the ministries to ask them to ensure that any time they're hiring accounting services—it was more specific to accounting services—that we would be notified. I think our Acting Provincial Controller Gary Wuschnakowski can give you a little bit more detail on that, if you'd like.

Ms. Sandy Shaw: Sure.

The Chair (Ms. Catherine Fife): Can you please, for the Hansard, just identify yourself and your title? Thank you.

1300

Mr. Gary Wuschnakowski: Yes. Hello, my name is Gary Wuschnakowski. I'm the Acting Provincial Controller and assistant deputy minister of the Office of the Provincial Controller.

The Chair (Ms. Catherine Fife): Thank you and welcome.

Mr. Gary Wuschnakowski: In terms of your question, naturally, the government engages external advisers throughout the year in various capacities that include both accounting analysis, advice and interpretation. Those external advisers are generally engaged to provide advice and guidance to the province.

Effective in 2018-19, our certificate of assurance process includes an attestation that ministries and agencies have disclosed to the Office of the Provincial Controller any external consulting or advisory services—

Ms. Sandy Shaw: That's new?

Mr. Gary Wuschnakowski: Yes—to the Treasury Board Secretariat and disclosed any external advisory support or services that they've obtained throughout the course of the year. That's accomplished on an ongoing basis through submissions that are provided to the ministry, and discussions then held with the Office of the Auditor General and advice taken in that regard.

Ms. Sandy Shaw: Okay. Thanks. That makes it clear. In practical terms, it would be interesting to know how this is actually implemented. I suppose one of the concerns that we have, based on the recommendations, is that using audit firms both for auditing and for accounting advice seems to be an obvious and inherent conflict. Is that something where you would put in place practical measures to ensure that that doesn't happen or, if it does happen, you would know exactly how that conflict will be managed?

Mr. Gary Wuschnakowski: That would form part of the reporting that would occur or that is required from each of the organizations back to the ministry, and that would be acknowledged or addressed by the ministry.

Ms. Sandy Shaw: All right. Mr. Gregg, if you don't mind, I'm going to go back to trying to—how much time do I have, Madam Chair?

The Chair (Ms. Catherine Fife): There are still nine minutes.

Ms. Sandy Shaw: Oh, nine minutes. Lots of time. Look at this—just chillaxing.

Around the rate-regulated accounting—again, I will repeat that I was on the Select Committee on Financial Transparency—and the whole idea of the Fair Hydro Trust: Someone called it a "bogus" accounting scheme; I'm not sure who. But how that happened was something we spent a lot of time discussing and trying to unravel.

Now what we're hearing through the restated public accounts and what we're hearing in this committee is that the treatment is being, I guess I'd almost say, unwound and brought back onto the public accounts, and so, as you said, now it is on the tax base, not on the ratepayer base. Can you just give me an overview on that, touching on, if you could, what the actual dollar impact will be on the public accounts? Then, maybe—I'm just curious—what's happening with the Fair Hydro Trust? Is that just hanging out there? How is that going to be resolved?

Mr. Peter Gregg: I can probably start and then—

Interjections.

Mr. Peter Gregg: I'll start and then we'll figure out where to go from there.

Ms. Sandy Shaw: Yes, it's a big question.

Mr. Peter Gregg: Yes. Mechanically, maybe I can give a sense of what's changed for us at the IESO. When the Fair Hydro Plan began, what it essentially did is that with ratepayers paying 25% less on their bills, that means that local distribution companies—say you're a Toronto Hydro customer. Your bill would be less than it otherwise was supposed to be, so we have a shortfall in terms of what comes into our settlement accounts. We still owe generators what they were owed. So that created this—

Ms. Sandy Shaw: A gap.

Mr. Peter Gregg: —this gap, this deficit, that under the previous accounting treatment was classified as an asset. Then OPG stepped in and ran the Fair Hydro Trust, and we got our money through that transaction with OPG.

The way it's working now is that that shortfall still exists, so we on a monthly basis do have a gap in what we receive. We keep track of that on a monthly basis, we submit an invoice to the provincial government, and then a transfer payment is made directly to us by the provincial government. That's the mechanics of how it works.

Ms. Sandy Shaw: So then I guess my question would be—I mean, I'm still interested in the current—I guess the Fair Hydro Trust still continues to exist on the market. Is that correct? That's a debt obligation that still will continue through the capital markets?

Ms. Karen Hughes: Yes. I don't know if, Gadi, you want to speak to that?

Mr. Gadi Mayman: Sure.

Ms. Sandy Shaw: We're getting them all up.

Mr. Gadi Mayman: Musical chairs.

Ms. Sandy Shaw: We also met in the select committee.

Mr. Gadi Mayman: Yes, we did.

The Chair (Ms. Catherine Fife): Just for the Hansard, could you please introduce yourself?

Mr. Gadi Mayman: Certainly, Chair. My name is Gadi Mayman, and I'm the chief executive officer of the Ontario Financing Authority.

Yes, Ms. Shaw, you're absolutely correct. The bonds that were issued through the OPG Trust, through the Fair Hydro Trust, are still outstanding and will continue to be paid all of their interest payments and principal payments until they mature. There will be no new issuance under the trust, but the two bonds that were issued are still outstanding.

Ms. Sandy Shaw: So it will sort of sunset itself. Is that it?

Mr. Gadi Mayman: Sorry?

Ms. Sandy Shaw: It will just sort of sunset? That whole thing—

Mr. Gadi Mayman: The program has been sunset. The bonds themselves still exist and have been making their interest payments every six months as they're due and will continue to make those payments.

Ms. Sandy Shaw: Thank you for that. It's my understanding that that shortfall between the reduction and what you are collecting and what you have to pay to the generators—you're getting your invoice paid, but the province has to find that money. Does that require additional borrowing on the part of the province to fund that gap, as Mr. Gregg described?

Mr. Gadi Mayman: Yes, that gap is now part of the fiscal plan. It is part of the deficit that the province has, so therefore it is funded by the OFA for the province at lower interest rates than what the Fair Hydro Trust was borrowing at.

Ms. Sandy Shaw: Sure. Can you give me a sense of the scope of that borrowing in terms of annual or projected? Are we talking about $1 billion, $2 billion, on an annual?

Mr. Greg Orencsak: Maybe I can answer that, Ms. Shaw.

Ms. Sandy Shaw: Sure.

Mr. Greg Orencsak: I think the independent financial commission and the public accounts were very clear about the cost of that for the 2017-18 year. Those were the last audited financial statements of the province. I think that, last year, the cost of that was $2.4 billion. That was the component of the deficit last year that was accounted for by the cost of that program.

Ms. Sandy Shaw: That $2.4 billion was in the independent commissioners' report. It was also identified in the fall economic statement. Am I correct that it was there? There was $2.5 billion, but I think that $2.4 billion of that was this borrowing.

Mr. Greg Orencsak: I'm just looking at the fall economic statement that reported out on the independent commission's report. It's $2.4 billion for 2018-19.

Ms. Sandy Shaw: Okay. And that $2.4 billion: Is it in the 2017-18 public accounts, or will that be going into the next fiscal?

Ms. Karen Hughes: It will show in next year's public accounts.

Ms. Sandy Shaw: Okay.

Mr. Greg Orencsak: It was part of the 2017-18 public accounts as well. Just to clarify: The $2.4 billion pertains to the 2018-19 year. The 2017-18 number: I don't have that handy, but it was part of the—

Ms. Sandy Shaw: Is it $1.2 billion, perhaps?

Mr. Gadi Mayman: The 2017-18 number was smaller because the program started in July. It wasn't a full fiscal year.

Ms. Sandy Shaw: If I were to find that number in the public accounts, where would I find that? In the meantime—

The Chair (Ms. Catherine Fife): Actually, the auditor also is looking for that number.

Ms. Sandy Shaw: Thank you.

The Chair (Ms. Catherine Fife): It's a good question. But we can move forward, if you want to.

Ms. Suze Morrison: Can I ask a question while you look for that, or do you have it?

Ms. Bonnie Lysyk: I can just comment. I think it was around $1.8 billion, roughly, in 2017-18. It will go up to that, and then there will be an annual impact from the Fair Hydro Plan, because that 16.5% of borrowings has to be made up, so it will hit the bottom line every year around the same amount that the deputy minister indicated.

Ms. Sandy Shaw: About $2.4 billion, is what you're saying?

Ms. Karen Hughes: I think we'll get the final numbers as we work through this year's public accounts.

Ms. Sandy Shaw: Okay, thank you.

The Chair (Ms. Catherine Fife): MPP Morrison.

Ms. Suze Morrison: My question was back to Mr. Mayman from the OFA. Sorry, if you want to come back to the table. It was just a follow-up question into that existing piece of debt that was sitting in the hydro trust.

The audit report noted that, obviously, the interest rates that were negotiated as part of that debt were much higher than the government would have been able to negotiate. For that existing debt that's being paid down now, is there an opportunity for the current government to renegotiate the interest rates on that, or are we locked in at those interest rates?

Mr. Gadi Mayman: No, those rates are locked in because investors bought it under those conditions, so we can't redeem the debt. One of the bond issues has a 15-year maturity; the other has a 20-year maturity. So we will continue to pay those rates. They cannot be redeemed.

The Chair (Ms. Catherine Fife): Last minute.

1310

Ms. Suze Morrison: Okay, perfect. That was actually my second question, what the maturity rates are. So one's at 15 years and one's at 20 years?

Mr. Gadi Mayman: Twenty years. That's correct.

Ms. Suze Morrison: And so what is the annual cost to that again?

Mr. Gadi Mayman: That, I'd have to get back to you on. I think that the rates were in the neighbourhood of 4%, so if you multiplied that out—the difference between the cost that they borrowed at and what our cost would have been at the time was between 30 and 50 basis points, so roughly 0.25% to 0.5% higher.

Ms. Suze Morrison: So 30 to 50 basis points. What is the actual total dollar value of the debt payments on this debt for the next 20 years?

Mr. Gadi Mayman: Well, it would be that interest cost that would be paid out every six months, and then at maturity the principal gets repaid. If we use roughly 4% as the cost—I can't remember the total amount outstanding. Again, we can get back to you on that.

Ms. Suze Morrison: Okay. Thank you.

The Chair (Ms. Catherine Fife): And that time is up anyway.

Everyone is speaking in very calm voices about billions of dollars. It's very disconcerting for me. But we'll move to the government side, and we'll begin with MPP Parsa.

Mr. Michael Parsa: Thank you very much, Madam Chair. I'm not going to raise my voice regardless.

Thank you all for being here today and helping us with some clarity as to where we were and where we are currently. Just a couple of confirmations, and I'm sorry I'm repeating this: You said the current debt is about $346 billion dollars?

Mr. Greg Orencsak: That's correct.

Mr. Michael Parsa: Okay. And you said the cost is about $12.5 billion a year?

Mr. Greg Orencsak: That's projected interest on debt expense on the province's outstanding debt for the current fiscal year, 2018-19.

Mr. Michael Parsa: Okay. I just wanted to make sure I got the figure as $12.5 billion.

The first question I have—I'm going to ask exact questions. The Auditor General writes the following about the previous government's pre-election report: "Our review highlighted that the pre-election report's presentation of the province's finances was not reasonable, as it understated Ontario's deficit and expense estimates for two items." Why was that? Can you elaborate on that?

Ms. Karen Hughes: Sorry, why was that?

Mr. Michael Parsa: Yes. Why was that?

Ms. Karen Hughes: Well, those were exactly the issues that I think were corrected through the Independent Financial Commission of Inquiry's recommendations, which were that we needed to take a valuation allowance for the pension assets and that we needed to change the accounting treatment for the Fair Hydro Plan. Both of those changes were made, which I think would have aligned it with the Auditor General's recommendations, so the public accounts more accurately reflected that position.

Mr. Michael Parsa: Okay. The next one here was the Ontario Teachers' Pension Plan. The Auditor General took issue with how the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan were accounted for by the previous government. Could you also elaborate on that? I know it's the same point, but I'd like to hear it from you, please.

Ms. Karen Hughes: Well, I think you identified the pension assets as being unable to take the value of the assets onto the province's books, because the province didn't have unilateral control of those particular assets. I think the Independent Financial Commission of Inquiry said it was a pretty complicated issue from an accounting perspective, and so said to take a valuation allowance for that on a provisional basis going forward.

The Chair (Ms. Catherine Fife): The auditor would like to make a comment on that.

Ms. Bonnie Lysyk: Just to add to that comment, one of the other key differences in determining whether the asset had a value on the statements or not was an underlying assumption. Through a mathematical formula, you determine whether you book an asset based on a calculation, and one of the key calculations is whether or not, as of the day after you value that pension plan, you assume that payments to pensioners will continue or not. We suggested that they would continue, because there was no evidence that teachers would not receive their pensions the day after the calculation.

The difference in the way it was calculated by the previous government is that they used the assumptions that there would be no more contributions to the teachers' pension plan going forward. That was a fundamental difference in determining whether it was reasonable or not to have an asset on the books.

Mr. Michael Parsa: Okay. We have a few questions here, so I'm going to go very quickly. The next one is on the Fair Hydro Plan. Many called it other things. But why did the Auditor General take issue with how the Fair Hydro Plan was accounted for by the previous government? Could you tell us a little bit about that?

Ms. Karen Hughes: I can only speak on the accounting portion of it.

Mr. Michael Parsa: Yes, that's fine.

Ms. Karen Hughes: I think the Auditor General cited her concerns with the accounting structure in her special report on the Fair Hydro Plan, with concerns about fiscal transparency, I believe, going forward.

Again, that structure was reviewed by the Independent Financial Commission of Inquiry. They reported that it wasn't the most transparent way to use it, and that there were additional costs associated with that structure.

Mr. Michael Parsa: Okay. You mentioned transparency. In your opinion, has the current government done anything to increase the transparency?

Ms. Karen Hughes: Now that it has shifted from the rate base to the tax base, as Mr. Gregg said, it will now appear as a transfer payment line that would be reported in the Ministry of Energy's public accounts, and also through the estimates process. So it will be a lot more transparent, how much the expected cost of that is going to be, going forward, so that it will be better known. It will come to this committee through this next year's public accounts.

Mr. Michael Parsa: Thank you.

The Chair (Ms. Catherine Fife): Do you want to comment?

Ms. Bonnie Lysyk: I just want to add one comment for clarity. The consolidated financial statements for the province of Ontario combine rate base and tax base, at the end of the day, because we pick up on consolidation—OPG and Hydro One—in that.

I think the subtlety is that, at this point in time, there is discussion about it being an issue of rate base versus tax base. But, really, the accounting for a government decision, a government policy decision, without an independent regulator looking at the issue, would always hit the government's statements.

Our issue as well was that there was no hearing or a regulator looking at any assets to defer that came before a government policy decision to change the electricity rates.

The Chair (Ms. Catherine Fife): Next, MPP Barrett.

Mr. Toby Barrett: Yes, thank you for finishing, down at the other end.

The Chair (Ms. Catherine Fife): Can you please move your mike a little bit closer? Thanks.

Mr. Toby Barrett: Perhaps to the deputy minister: You mentioned that in recent years, our credit rating had been downgraded six times. What time period was that, again? I think you mentioned it.

Mr. Greg Orencsak: I believe it was over the last 10 years.

Mr. Toby Barrett: Yes. We know, from the Auditor General's report last year, that both Moody's and Fitch credit rating agencies revised their rating outlook. However, as I understand it, Ontario's credit rating wasn't changed as a result of that, or that didn't have an influence within the investment community, according to the report.

Over the past 10 years, have we had the investment community make any decisions or trends as a result of those six downgrades? Apparently, not the last two.

Mr. Greg Orencsak: Obviously, the province's credit status is really important. The province is a large borrower. We've just talked about the amount of outstanding debt that the province has. The province does have very good access to credit markets, and the province remains a very high-quality borrower.

What concerns us at the Ministry of Finance, in terms of the province's overall indebtedness, is the cost of carrying that debt. As I mentioned in my opening remarks, the province's projected interest on debt payments is $12.5 billion, which is quite significant.

We've benefited over the last while from interest rates that have been at a very low level for an extended period of time since the last downturn. But we have observed over the last year that the interest rates have started to begin to creep up a little bit. Now that rise has again been halted, given more recent economic developments and approaches by central bankers to potentially hold off on future rate increases. That's something that we watch very closely because all the money that goes to pay for interest on debt is money that is obviously not available to pay for other critical public services.

1320

Mr. Toby Barrett: We know from the report that the Bank of Canada raised its key lending rate five times. This is just over April 1, 2017, to October 24, 2018. What is going on there? Any projections on where the Bank of Canada rate could be going?

Mr. Greg Orencsak: I obviously won't speak for the Bank of Canada, but again, the interest rate environment is something that we do watch very closely. I think, over time, we do expect interest rates to go up and begin to increase again. As those interest rates increase, and if those interest rates increase by more than what we're expecting, that would represent additional costs for the province in terms of its borrowing.

I think, in the meantime, through the good work of the Ontario Financing Authority, the province is taking responsible and prudent steps to help manage the cost of the debt. One of the things that we do is to try to extend the term, to borrow for longer terms. That way, we can lock in interest rates today while they are more favourable than they might be going forward.

If you're so inclined, Gadi can speak to more detail as to the approaches that the OFA uses to manage the cost of the province's borrowing program.

Mr. Toby Barrett: What I was wondering—again, I'm just speculating. We had the report from the Independent Financial Commission of Inquiry. I guess, traditionally, when a new government comes in—I have the image that they run down to the treasury to see how much money is there. As I understand, it was difficult to determine really what the assets were of the province of Ontario. I think more of a perspective of a farm or a small business: "You're going to invest in this" and "What have you got?" There obviously seemed to be an awful lot of confusion. Would that have any influence at all on these credit rating agencies? Not that they know everything; I mean, they've made mistakes in the past. I think of the asset-based debacle 10 years ago.

Mr. Greg Orencsak: Yes. We work closely with the credit rating agencies, obviously, in terms of making sure that they have access to information to review our assumptions and our financial statements and documents.

I think the other thing that we benefit from is oversight by independent officers. We talked earlier about the Auditor General's pre-election report, for example. In the auditor's pre-election report, the auditor commented on the province's finances and identified through her review the items that were not properly reflected on the government's books in terms of the pension assets and the Fair Hydro Trust. That information was obviously available to rating agencies and investors as well in terms of an understanding of the province's financial situation.

The independent commission of inquiry, again, at arm's length from government, was able to reconfirm that information and build on that, given the fact that by the time they were tabling a report with the government in August of last year, they were able to also account for a few other items in terms of economic developments that have had a further impact on the province's financial position as well as looking at some of the underlying fiscal assumptions. So that brings clarity to the province's underlying finances, and I think that's important for markets and investors so that they are not surprised. Through the government's financial documents and financial reporting—when that's done in a timely way, that's also very important in terms of making sure that people who want to invest in this province, people who hold the province's bonds, know the underlying financial situation of the province.

The Chair (Ms. Catherine Fife): The auditor wants to comment on this.

Mr. Toby Barrett: Yes, please.

Ms. Bonnie Lysyk: Just to your point, and just to add to what the deputy minister had indicated, we know from conversation with the rating agencies that they had already factored the pension accounting adjustment into their rating prior to our even coming out with our report.

In terms of the fair hydro, they look at the consolidated statements and will look at the overall cash flow within the government and sources of revenue and that. From our meetings with them, they were factoring that in on those two issues by itself.

The Chair (Ms. Catherine Fife): There are under five minutes left. Do you want to pass it to Ms. Ghamari? Are you going to continue?

Ms. Goldie Ghamari: Is it possible to just add the five minutes to our next session, and then that way—

Mr. Toby Barrett: I could use the five minutes now and then we have a clear—

Ms. Goldie Ghamari: Sure. I just want to go uninterrupted.

Mr. Toby Barrett: Yes. You'll be clear on the next round.

Ms. Goldie Ghamari: Do you know what? I'll just—

Mr. Toby Barrett: You're going to be clear on the next round if you want one.

The Chair (Ms. Catherine Fife): MPP Barrett, would you like to finish this set?

Mr. Toby Barrett: Yes, maybe.

Ms. Catherine Fife: And then we'll start with you next time.

Mr. Toby Barrett: With respect to Gordon Campbell's inquiry, it seemed to be a very brief period of time last summer for that report. How did they work with the government or with the Auditor General? How was information shared back and forth? Can you give us just a bit of a window on what went on there? Not that I'd be able to explain it to my constituents, but the odd person is curious.

Mr. Greg Orencsak: Sure. Let me take a crack at that. The commission was appointed by the government, I believe, last July. They reported out by the end of August, and that report was made public in September of last year.

As was indicated in the commission's name, it was set up as an independent commission. That was particularly important in terms of making sure that the commission itself operated independently of government.

It was furnished with powers under the Public Inquiries Act to be able to have access to information and documents so that they could do their work independently. Those are very broad powers in terms of the commission's ability to compel information.

As part of that, they had obviously requested documents from government ministries. We made sure that they had access to government staff to be briefed on any matter that they had an interest in. Again, I won't speak for the auditor, but I do believe that the commission met with the Office of the Auditor General.

In terms of the timing considerations around the commission's work, yes, they were asked to do their work quickly because I think it was important for the government to bring transparency, an independent lens, to the underlying fiscal circumstances of the province. I think there were also some immediate matters that the government was looking for transparency on, in particular with regard to any matters that were relevant to inform the finalization of the government's 2017-18 consolidated financial statements for the province, which have to be finalized by legislation within 180 days after the end of the fiscal year, so by the end of September. Having them report to the government by the end of August allowed the government to see their advice and work with the Auditor General to finalize the 2017-18 statements, which, as you know and the Auditor General indicated, received a clean audit opinion.

1330

The other part of the work of the commission was with respect to assessing and providing an opinion on the province's budgetary position as compared to the position presented in the 2018 Ontario budget. They did that for the 2018-19 fiscal year and identified that, in their view, there was a $15-billion deficit that the government was facing in 2018-19, which became an important launch-off point for the new government to use in the context of their own fiscal planning.

The Chair (Ms. Catherine Fife): Okay, a good place to stop. Thank you.

Mr. Toby Barrett: Thank you very much.

The Chair (Ms. Catherine Fife): We'll come back to MPP Ghamari for the next session.

MPP Shaw?

Ms. Sandy Shaw: Thank you. I just wanted to maybe finish up or add to the discussion about the credit rating agencies because then it will lead into some questions we have about the debt, the debt burden and the debt-reduction plan. My understanding is that when Moody's issued that opinion, they actually said that it wasn't just about the debt, it wasn't about the pension treatment, and it wasn't about the Fair Hydro Plan because, as the Auditor General said, that had already been taken into consideration. In fact, Moody's said that the actions taken by the current government, which is the government right before us, to reduce revenues will add to the budgetary pressures. Can you just help me understand that a little bit? It's two sides of balance sheets, right? It's that the revenue side was a concern for the bond raters.

Mr. Greg Orencsak: I'm going to ask Gadi to join us at the table to help elaborate on my response.

In terms of working with credit rating agencies and the process that goes into informing a credit rating process, it's an ongoing and continuous process. Credit rating agencies take into consideration a broad range of factors—

Ms. Sandy Shaw: So, specifically around the revenue piece; that's what I'm interested in.

Mr. Greg Orencsak: Yes—including the province's existing financial situation and the province's existing debt burden, along with the economic environment and the province's plans to manage the debt burden going forward.

I'll turn it over to Gadi to speak more, specifically with respect to Moody's in particular.

Mr. Gadi Mayman: When the rating agencies rate our debt or rate anyone's debt, what they're basically looking for—they have a framework. That framework is basically about the willingness and ability of the entity that they are rating to make interest payments on a timely basis and to repay principal. They look at a wide variety of factors. Economic fundamentals is probably the most critical one—so economic strength—and also the volatility of the economy.

One of the strengths of Ontario is not only that the economy has been growing but it's steady. There are some economies, like Alberta's for example, that are really up and down. That challenges rating agencies because of the volatility that's there.

They also look at the institutional frameworks, so they look at the legislative background, the financial flexibility—the whole institutional framework that will allow that to be repaid.

And then they look at financial performance. Financial performance does include, as you've mentioned, the fiscal balance. The fiscal balance is both on the revenue side and on the expenditure side. They don't look at it strictly though from the perspective of what this year's revenues are or this year's expenditures are. They look over a longer period of time. And so, when they're making their assessments, they will make judgments as to whether a decision that's made on a certain expenditure will increase revenues in the future, will decrease revenues in the future, and the same thing with revenue moves that are made. They look at all of those things. So there's a whole variety of things that they look at.

Ms. Sandy Shaw: Sure. But in this recent announcement, they said specifically that it was about the revenue. So I guess I'm just asking—I know about all of the other framework that you described; I think we all sort of get that. But I just wanted to know what you think they were referring to specifically when they said that it was a decision taken by the current government to reduce revenues.

Mr. Gadi Mayman: I'm not sure that they actually said that it was a decision by the current—

Ms. Sandy Shaw: Yes, they did.

Mr. Gadi Mayman: My recollection is that they talked about the combination of increasing debt along with slowing revenue growth. The slowing revenue growth is partly because of the fact that the economy was growing less quickly than it had.

The major driving force behind the downgrade that Moody's gave to us in the late fall was the debt burden, and the debt burden being larger.

Ms. Sandy Shaw: Okay, I'm confused, because I thought the Auditor General said that they had already taken that into account. But I will read this, if you'd just allow me: "Moody's also said that actions taken by the current government to reduce revenue levels will add to the budgetary pressures...."

I just want to specifically understand that. As we go forward and we try to come up with a plan to reduce the debt, which we all agree is something that's before us, the revenue side can't be ignored, but it has resulted partly in Moody's negative downgrade opinion.

I just want to know specifically about the revenue piece and why, in your opinion, that would be something that they would be concerned with. I think it had a bit to do with the fall economic statement that showed reduced revenues, projected reduced revenues, or reduced taxation levels. That's what I'm trying to understand.

Mr. Gadi Mayman: In the discussions that we had with them—they do look at ratios. There are a couple of ratios that they look at that are revenue-related. They look at the interest-on-debt cost as a percentage of revenue, and they look at the debt-to-revenue ratio.

Where the challenge came was that when they looked at the path forward, they had already put the province on negative outlook, following budget 2018, I guess it was. That was on the basis that the previous government had moved from a plan that was to balance the budget in the 2018-19 fiscal year, and going forward, to a plan that had some significant deficits—

Ms. Sandy Shaw: A different plan.

Mr. Gadi Mayman: —yes—and also within that, had the Fair Hydro Plan and was not counting the pension asset.

Ms. Sandy Shaw: Okay. All right, I'm going to move off that question. What I would like, maybe—and I'm not sure who to direct this to—is to understand the current debt that is before us. Let's just talk about the debt in general. You can decide whether you want to talk about the big debt, the total net debt.

Part of that is, what I would like to understand—when we did have some of the deputations from that committee, including the former Premier, there was a discussion about what that debt was comprised of. I think they seemed to be particularly proud of the fact that a lot of that was investment in infrastructure, capital investment.

I know that maybe this is an unfair question, but can you help me to categorize the debt? Was it infrastructure spending? Was it the extra interest on the way that they financed the Fair Hydro Plan? Just give me a broad-stroke characterization of what that debt is comprised of.

Mr. Gadi Mayman: There are, unfortunately, multiple ways of measuring debt, and it does cause confusion. The reason there are multiple ways is because there are different things that people are looking at. You pointed out certain aspects of it.

One of the ways of measuring debt is called accumulated deficit. Accumulated deficit, to oversimplify a little bit, is the sum of the deficits and the surpluses going back to 1867. That is basically a measure of how much more we have spent, as a province over the 150 years, on operating costs than what we have taken in.

Ms. Sandy Shaw: So a plus-minus rating.

Mr. Gadi Mayman: That's right. Whereas net debt, which is a more favoured measure in the financial markets, measures all of your debt less what we call financial assets—so, money that we've got that we've invested. We carry extra cash to stay ahead in the borrowing program. Net debt is considered to be a better measure.

The difference between net debt and accumulated deficit is basically all of the unamortized capital that we have. If the province goes out and builds a hospital—it costs a billion dollars to build that hospital, and it's built over a three-year period—we have to go out and borrow that billion dollars in that three-year period, because we have to pay the people who are building the hospital. We have to pay the tradespeople. We have to pay everyone.

1340

From a fiscal perspective, though, that will be amortized over the useful life of a hospital, which—let's say, for the sake of argument—is 30 years. What will happen is that, every year on the fiscal plan, there will only $33 million added—$1 billion divided by 30.

From an accumulated deficit perspective, if you measure debt in that way, the debt is only going up by $33 million a year. If you look at it from the perspective of how much the province had to go out and actually borrow money for, it actually went up by $1 billion. That's the difference between net debt and accumulated deficit.

You can definitely make the argument—I certainly try to make that argument with rating agencies all the time—that if it's invested in capital, that's better debt. It's debt that's being used for something. It's like a mortgage as opposed to a credit card to go out for dinner on Saturday night.

Rating agencies, unfortunately, don't necessarily take that perspective. The reason for that is that governments are different than a business would be. If a business—whether it's a small business, a farm, a large business—goes out and makes an investment and they amortize over a period of time, that's because they expect to have a financial return that is higher than what their borrowing costs were or their equity costs were from taking that on.

If a small business says, "I'm going to go out and borrow $10 million and build an extra bay in my garage, and that's going to allow me to service a hundred more cars a month and, therefore, I'm going make an extra $1 million a year," that's well worth it, because I'll get a 10% return on it.

Government investments in capital are really important and critical for keeping the economy as a whole going. They don't necessarily provide a financial return. Whether that is social capital like hospitals, or even economic capital like roads, bridges, transit, it is good for the economy—it does generate revenue in the future because the economy will grow—but it isn't one for one. If it was, then the private sector would do it. If you could build a bridge over wherever and you made money on it, then the private sector would do that.

That's why rating agencies will look at net debt and they will not necessarily look at accumulated deficit as being a critical measure of how we are.

The Chair (Ms. Catherine Fife): You still have nine minutes.

Ms. Sandy Shaw: I appreciate the point about understanding that investment in infrastructure is important for various reasons. As we go forward, for me personally as a legislator, I want to make sure that we just don't use a blunt instrument to say, "Let's just get that net debt-to-GDP down for the sake of getting it down." I think we need to understand the implications that this is money that we're spending in the public domain to build hospitals and so forth. I think that's why trying to understand the components of debt and the interplay is not an easy thing, obviously. People make entire careers of it. That's why I'm asking that question so that we can really start to understand the nature of the debt as we look at the options that the province will be facing when we try to address the debt burden. That's really why I asked that question. Thank you for that.

I guess the other part of understanding the debt burden is about the fact that one of the recommendations from the auditor is that there is a long-term plan to address that. I'm not sure who to ask this question to. But isn't that a required component of a financial budget, that it includes a debt plan in the budget, as well? Isn't that what we can expect with the April 11 budget?

Mr. Greg Orencsak: Maybe I'll take a crack at that. Obviously, you won't fault me for not speaking to what may or may not be in the April 11 budget.

Ms. Sandy Shaw: No. I'll do that.

Mr. Greg Orencsak: Just wait another—I think it's eight days.

Ms. Donna Skelly: Eight sleeps.

Mr. Greg Orencsak: Eight sleeps? Well, we don't get to sleep at the Ministry of Finance the week before the budget.

Laughter.

Ms. Sandy Shaw: Neither does the finance critic get to sleep.

Mr. Greg Orencsak: We're running on fumes, so we can relate.

In terms of a debt burden reduction strategy: Obviously, we provide a great deal of disclosure to the public and to investors through the financial statements that we publish. Ontario publishes multi-year financial statements. Through those multi-year budget plans, you can see what the government is intending to do in terms of their spending plans and how those impact borrowing requirements and certain ratios.

I think what's particularly important, if you look at the literature as well, is to understand the details around how the government is intending to manage certain aspects of the government's finances, how much disclosure there is in terms of how decisions are being informed with respect to where to invest, how to transform services, how to deliver services and what impact that may or may not have on debt and debt accumulation. I think you spoke to that yourself in terms of not all capital investments are made equal, and you want to know how those investments may impact on hospitals, for example.

In terms of managing the debt burden, I think it's really important for the public to understand how the government is going about that, how it is prioritizing its investments, how it is taking measures or what trade-offs it's making in terms of doing something that may be an important investment today and that has a particular return, or maybe delaying investments in view of not accumulating further debt.

Ms. Sandy Shaw: Do we have time?

The Chair (Ms. Catherine Fife): Yes, you still have five minutes.

Ms. Sandy Shaw: Okay. Again, I'm not sure who to direct this to, but we talked about capital investments in infrastructure building. One of the things that a previous Auditor General's report identified is that some of the P3s—the public-private partnerships—were perhaps more expensive than if the government had done it themselves. So as we go forward, looking at what the government's intention is in terms of capital investment as we also look to manage the debt burden, understanding the actual cost of privatization or understanding the cost of a public-private partnership as opposed to doing it completely publicly or through the government—is that an important consideration when we try to balance, to see whether or not this is a wise form of investment, given that we're also trying to reduce our debt?

Mr. Greg Orencsak: Maybe I'll start, and Gadi, you may want to jump in.

As we put a budget together, I think the government looks at its capital plan as a whole. The province has a 10-year capital plan, and as part of that 10-year capital plan, it makes decisions based on sectors in terms of how much capital investment is made in the health sector, in the justice sector, in the education sector.

In terms of the delivery of capital projects, ministries work closely with delivery entities like Infrastructure Ontario, for example, in terms of evaluating what may be the most appropriate form for delivering any particular capital project. Part of the work that Treasury Board does is ensure that there is appropriate value for money in terms of those delivery mechanisms.

Gadi, I don't know if you want to add something on P3s in particular, in terms of how those decisions are reviewed and looked at from the perspective of Infrastructure Ontario?

The Chair (Ms. Catherine Fife): Mr. Mayman.

Mr. Gadi Mayman: Deputy Orencsak hit the nail on the head: It's value for money. Value for money involves, as you talked about earlier, Ms. Shaw, trade-offs and making decisions.

There are a number of components that go into a decision on a major capital project, a number of costs that go into it. Absolutely, interest costs are one of them. If the proponent for Infrastructure Ontario—the people who are building. Their cost of borrowing is higher than the province's cost of borrowing. The way to make that work, though, to offset that, is to ensure that there is enough risk that is transferred to that proponent so that the extra costs that often come with infrastructure projects—we see that all around us all the time, whether you go through Union Station or wherever else—

Ms. Sandy Shaw: Tim Hortons stadium in Hamilton.

Mr. Gadi Mayman: There are a number of places where that happens. The key is to ensure that the amount of debt that the proponents are holding is significant enough that they have what we'll call skin in the game. They need to make sure that they're meeting their deadlines and they're on track in terms of the budget.

1350

There will be an extra cost of borrowing for them, but that will be offset over time in most projects—not all projects; there are some that will not necessarily be there. But in the whole body of work that's done by Infrastructure Ontario, their record for being on time and on budget, or closer to budget than traditionally done, is important.

The other part that Infrastructure Ontario has done is that originally when they started off with their AFP projects, the debt that was held—there was very little government money in it.

The Chair (Ms. Catherine Fife): One minute.

Mr. Gadi Mayman: What has happened more recently is that they've evolved their process so that now, at the beginning of the project, when there's the most risk, that is when the private sector borrowing takes place. Then what happens is, along the way, there are substantial completion payments and other payments along the way that reduce it. For example, with a highway project, by the end of the project, when it goes into service, over 80% or up to 80% of the financing is actually coming from us at the OFA, through us to the province, whereas in the old structure and in a pure P3 structure, that would be entirely 100% financed.

A highway is probably not going to break along the way. You want to leave enough in there so that they're going to still be doing the proper maintenance, but that's the way that it tries to balance off.

Ms. Sandy Shaw: Thank you very much. It's been very helpful.

The Chair (Ms. Catherine Fife): The Auditor General just has a quick comment on that.

Ms. Bonnie Lysyk: I'll comment, too, just to add to what Gadi had mentioned. The funding flow to P3s makes a difference on the interest expense. It's cheaper for the province to fund and to pay back AFP contractors faster because they're borrowing at a lower interest rate than what the contractors were. I believe that a couple of years ago, Infrastructure Ontario changed the method of flowing to flow cash faster, to try and alleviate what we highlighted as a more expensive method of constructing.

The other thing I'd refer you to, just for a form of reference, is note 14a. Note 14a deals with contractual obligations, and what it shows in terms of alternative financing procurement contracts is it shows the future commitments that have been made to fund AFPs. An AFP in some ways delays the financial impact on the financial statements to the future.

Ms. Sandy Shaw: Thanks.

The Chair (Ms. Catherine Fife): Now we're going to move to MPP Ghamari for your 20 minutes.

Ms. Goldie Ghamari: Good afternoon, everyone. Thank you for being here today. It's been really informative so far. I just want to read a few statements first, because I think it's really important for Ontarians to understand the role of the Auditor General and her relationship with you, because that will kind of go to the questions that I have for you.

My understanding is that the Auditor General is essentially an independent officer who oversees Ontario's finances and essentially holds government accountable to the Legislature, and she does this by doing annual and special reports that provide MPPs like us, who sit on the committee, with the information that we need to judge how well public resources are being used.

Would you agree with that? It's from the website. It's just what it says. I just want to make sure we're all on the same page here.

Ms. Karen Hughes: Yes. Sounds good.

Ms. Goldie Ghamari: The other thing—

Mr. Toby Barrett: I agree.

Ms. Goldie Ghamari: Oh, perfect.

So then just looking through the Auditor General's report, at section 3.4, they've written, "The independent auditor's report is how the auditor communicates their opinion to users of the financial statements as to whether the statements of an entity are presented fairly. After the audit of the financial statements is completed, the auditor can sign one of four possible opinions:" unqualified or clean; qualified; adverse; or no opinion or disclaimer.

Then, sort of halfway to the bottom of the second column, it says, "An unqualified audit opinion indicates that the financial statements are reliable. For the first time in three years, the Office of the Auditor General has issued an unqualified opinion on the province's consolidated financial statements."

So as a result of the corrections that this government has made, the government is now in full compliance with Canadian PSAS, and the consolidated financial statements that our government has provided can be relied on to fairly and accurately represent the province's fiscal results for the year ended on March 31, 2018, in all material respects. With that in mind, what I wanted to ask you is is, what is the importance of the Auditor General's opinion on the government's public accounts? How important is it for her to give a qualified or an unqualified statement?

Ms. Karen Hughes: We think it's very important, actually, to get an unqualified or a clean audit opinion. As I mentioned in my opening remarks, we're happy to work with the Auditor General to ensure we are taking all the necessary steps that we can to get an unqualified opinion. That's part of the work that we do starting in January through to when the public accounts are released, so that we can work together to make sure that all matters can be resolved to the Auditor General's satisfaction. We agree that's a key part of ensuring both the transparency and the reliability of the province's public accounts to the public.

Ms. Goldie Ghamari: Thank you. That's actually really important because that is something that our government campaigned on. We made that commitment to Ontarians, so I'm glad to see that.

Just to dive in a little bit more, how did the Auditor General's opinion of these past accounts differ from the qualified opinions that she gave in previous years to the previous government? What was the difference there?

Ms. Karen Hughes: I think the key differences—and we've kind of talked about that already—were with respect to the pension accounting, with respect to the market accounts of the IESO. It wasn't as much because it hadn't been material at the time, but the Fair Hydro Plan, which would have come onto the books in 2017-18 but didn't because it was treated in a different manner than it might have been going forward—those were the key changes that were made with respect to the public accounts that enabled the Auditor General to sign off on a clean opinion for this year's public accounts.

Ms. Goldie Ghamari: Okay. Aside from that, because we've talked about it already, is there anything else that the current government has done differently to result in the first clean opinion from the Auditor General in three years?

Ms. Karen Hughes: I was mentioning before the meeting started that the prior deputy and I met with the Auditor General back in May of last year to try and work together in a different way in preparation of the 2017-18 public accounts, so that we would be able to have more open discussions and be able to share information and to share decisions in the treatment of issues as they were arising. I think we've been doing that over the coming years so that we can have a much more positive working relationship between the Office of the Provincial Controller division and with the Auditor General and her staff going forward, so that things can be resolved throughout the year as opposed to getting to the end of the year and having surprises or different things happening. I think we've tried, and we're continuing to work together, to build that relationship so that we are working together to ensure that we are, I'll say, on the same page or at least understand the pieces going forward.

Ms. Goldie Ghamari: Thank you. I think that's critical. It's interesting, because when Madam Chair commented on how we're all so calm when we're dealing with billions of dollars, I think part of the reason that we are so calm is because we do have this unqualified, clean opinion. To me, that just makes me feel confident in the province's financial statements.

As well, just looking at the summary status table that we get from the Auditor General in response to some of the undertakings—I don't want to ask any questions on it, but I do want to note that the current government is working closely with the auditor on all of the recommendations, and they're either fully implemented or they are working on getting them implemented.

I think that's excellent, and I want to commend you for all your hard work. It's a difficult job. I'm really happy to see where things are going and I'm looking forward to the future. Thank you.

Ms. Karen Hughes: Thank you.

The Chair (Ms. Catherine Fife): The auditor would just like to make a quick comment, and then we'll go to MPP Martow.

Ms. Bonnie Lysyk: I have said this before publicly and I'll say it again: I want to thank everyone because the accounting adjustments were things that were tough issues to deal with over the last few years. I do appreciate that the accounting has been corrected, that the statements represent fairly to the public in Ontario the true finances of Ontario.

We have, over the last eight to 10 months, been working very closely with the OPCD and the deputy minister's offices, and there is a good exchange of information that we've found now going forward. We appreciate it.

1400

The Chair (Ms. Catherine Fife): Thank you. MPP Martow.

Mrs. Gila Martow: Thank you again for joining us today. My mother got her CA in Quebec in the late 1950s. Five hundred people got their CA that year, and she was the only woman. I used to sit and help her on the little machine and do her ledgers. She had clients in the home and—

Ms. Donna Skelly: You're dating yourself.

Mrs. Gila Martow: Yes, I am. I am. I didn't even have to look; I could do it.

I remember asking her questions when things were complicated and clients were missing receipts and they'd come in with boxes, business people. So I learned at a very young age, maybe the age of 12, the term "creative accounting." That always stuck with me through life. Whenever I would read articles about that—before I got involved in politics at all, there were arguments about accounting practices and things like that, that people sort of try to see things from their own perspective, obviously to improve their bottom line, as it were, to balance their ledgers.

We're not supposed to be playing games here; we're supposed to be trying to ensure that the province has a strong economy and the money we need to fund all the things that people care about, and that's why they give us—I'm just reminding myself why we're all here.

I want to focus on debt reduction, because I think that going forward, that's going to be a lot of discussion with this government once we get to the bottom of everything and present our first budget for the term. Then we're going to have the tougher task of starting to talk about debt reduction.

I want to mention that the Auditor General, on page 33 of her report, and I'm quoting: "The province's growing debt burden ... also remains a concern this year, as it has been since we first raised the issue in 2011." I'm asking what your thoughts are to explain why the debt that we inherited is such a concern and why we have to make that our priority going forward after this budget.

Mr. Greg Orencsak: Maybe I'll take a crack at that. I think we talked about the debt numbers in this room earlier, but just to remind ourselves, net debt, as of our third-quarter finances report, is forecast to be $346 billion. That's at the end of the 2018-19 fiscal year. As a percentage of gross domestic product, that's over 40%. That's 40.4% of GDP. That is obviously a concern, and maybe I'll speak to some of the practical aspects, both financial and economic, of that.

The most obvious one is the cost of carrying that debt. Interest charges do accumulate on that debt. Think of that as the first dollar that leaves the treasury. It's the first dollar that leaves the door because we have to pay for carrying that debt, and obviously that money that is spent on interest costs is not available to pay for other government services. As interest on debt costs grows, or as interest on debt costs grows faster than overall spending or the rate of growth in the economy, increasingly more resources from the treasury are being diverted to pay for debt-carrying costs.

The other important consideration for us at the Ministry of Finance is the impact that the high debt load and interest costs may have on the government's flexibility to respond to shocks. For example, we might have less flexibility as a province to respond to increases in interest costs or economic shocks in the broader environment.

Our economy is a very open economy. Economic activity across this province is integrated into transnational and global supply chains, so we watch economic developments very, very closely. If the economy were to slow down, or if we were to find ourselves in a recession, a high debt load would make it more difficult for the government to respond through policy measures or counter-cyclical measures, for example.

If you'll allow me, I'll just mention to you a few things that we are looking at very closely in terms of economic developments.

One of those that hits close to home is continued uncertainty in terms of our trading relationships. I think we've seen the impact that renegotiations around NAFTA have had on economic activity. While we have a new United States-Mexico-Canada agreement in place, that agreement is still proceeding through the ratification process in all three countries. That ratification process will be important, and businesses are obviously watching that closely.

US-China trade relations are something else that is causing concern in the broader economic environment and may have an impact on investment decisions by businesses, for example, going forward.

That is just one aspect of the economic risk that I wanted to speak to, and there are certainly others as well that we're watching closely.

Mrs. Gila Martow: I hear from a lot of people that they're also concerned about the carbon tax, that it could also have a negative effect on our economy.

I'm just going to quote again the Auditor General: "The province should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt." That is also on page 33.

Obviously, you've outlined some of the importance, but what are the strategies that maybe you would want to recommend, so that we get to a future someday, dare I say it, where we're not only just paying interest on the debt, but we're actually paying on the debt? Maybe we're going to get to a point where we're actually putting money away for a rainy day in this province—I guess, not in our lifetimes. But wouldn't that be nice if our predecessors had thought about that?

What are your thoughts on a strategy and the potential consequences, say, of not addressing the debt?

Mr. Greg Orencsak: I certainly want to acknowledge the Auditor General for her work, through past annual reports, in terms of highlighting the impact that Ontario's debt burden has on public finances, and the value of having a plan for managing that debt. Obviously, that plan has to be, and should be, credible.

If you look at other countries, other jurisdictions, there are many best practices out there in terms of how other countries look to manage their debt, and some of the anchors that they use to both set goals and targets as well as measuring progress.

Clarity around those anchors is particularly important in terms of transparency to the public, so that the public knows what the government's fiscal plan and priorities are. That instills accountability with respect to delivering on that particular plan.

If you look around at other governments, for example, some of those anchors and targets are set out in the context of the next three years or four years, to correspond to government mandates.

You all know, as elected officials, that it's important for the public to be able to hold the Legislature and elected officials to account for the goals and plans that governments set in terms of various policy objectives.

1410

You can look at the debt burden reduction strategy in that context as well. I think that's why this government has taken that to heart and has been pretty clear in the 2018 fall economic statement that it is committed to developing a debt burden reduction strategy and is expected to report on that in the upcoming budget as well, which is when we have an opportunity to next provide an update in terms of Ontario's finances going forward.

Mrs. Gila Martow: Thank you very much.

The Chair (Ms. Catherine Fife): There's just under two minutes.

Mr. Jim McDonell: Okay. I'll start.

The Chair (Ms. Catherine Fife): Okay.

Mr. Jim McDonell: I know we've gone through a few days of this—

The Chair (Ms. Catherine Fife): Mr. McDonell, can you just put your mike down?

Mr. Jim McDonell: Okay. The Auditor General is quoted as talking about the importance of following the Canadian Public Sector Accounting Standards and the appropriate standards for the province to use in preparing financial statements. Could you comment on the importance of these standards and maybe where we've gone over the last number of years?

Ms. Karen Hughes: Sure. Maybe I'll get Gary Wuschnakowski to come up and comment a little bit on that. We think that following the Public Sector Accounting Standards is very important and, as a result, we do often actually enter into dialogue with the Public Sector Accounting Board to help in terms of some of the upcoming changes and different shaping of that that happens going forward. So maybe I'll turn it over to Gary to provide a few comments on some of the work that has been going on with the Office of the Provincial Controller on that issue.

Ms. Catherine Fife: Okay. You have less than a minute so you'd better talk fast.

Mr. Gary Wuschnakowski: Thank you very much, Deputy. OPCD is quite heavily involved with the Public Sector Accounting Board in providing responses back to submissions or standards that are being set or determined through the board. As you may know, the Public Sector Accounting Board establishes those standards on behalf of the organization, and the province participates in consultation with them. Over the past year, a number of responses have been prepared by the Office of the Provincial Controller, including work that we do with other jurisdictions and other provinces in support of those standards or developing those standards.

The Chair (Ms. Catherine Fife): Okay. We might have to come back to that point. I'll come back to you after the next session. Just for your knowledge, you have 14 minutes left and you have your final 14 minutes. Okay?

Ms. Sandy Shaw: Right now?

The Chair (Ms. Catherine Fife): Yes, beginning now. MPP Shaw.

Ms. Sandy Shaw: Okay. I would like to spend some of my 14 minutes understanding Treasury Board orders. How is that—

Ms. Karen Hughes: Treasury Board—

Ms. Sandy Shaw: Treasury Board orders, yes, and it's also discussed in the auditor's report—

Ms. Karen Hughes: Uh-oh.

Ms. Sandy Shaw: Just so I understand, part of your department is about internal controls.

Ms. Karen Hughes: Right.

Ms. Sandy Shaw: Would overseeing Treasury Board orders be something that would be part of an internal control system that you would have?

Ms. Karen Hughes: Yes, I guess in a way. Treasury Board orders are something that are issued by the committee that is Treasury Board, so when a ministry comes in and asks to move money within their votes and items in the estimates, they require a Treasury Board order in order to be able to do that and they make a request to Treasury Board to be able to approve that. Our staff review, comment on that and would make recommendations to Treasury Board as to whether that's a good decision or something that—

Ms. Sandy Shaw: Yes. So that I understand this, there are the estimates for the year, and then in-year, Treasury Board orders can move things from—move them around from either ministry to ministry or within—

Ms. Karen Hughes: Or within a ministry.

Ms. Sandy Shaw: Within a ministry. And ministers have the ability to do that and the Treasury Board president obviously has the ability to do that.

Ms. Karen Hughes: No, the Treasury Board itself actually has to approve all Treasury Board orders.

Ms. Sandy Shaw: So they come—

Ms. Karen Hughes: They make a request in to Treasury Board to actually move the money.

Ms. Sandy Shaw: Okay. Help me understand this, because it was a confusing year this year because we had the 2017-18 estimates that were in fact the Liberal budget, precisely the Liberal estimates that were tabled in the fall. In that—

Ms. Karen Hughes: Last spring.

Ms. Sandy Shaw: Yes, but then they came to this government—

Ms. Karen Hughes: After the budget. Coming up soon we'll have new estimates for the coming year, once the budget is released.

Ms. Sandy Shaw: Right. But we just passed a supply bill that was based on estimates that were tabled at the end of November. It was the Liberal budget; right?

Ms. Karen Hughes: That's right.

Ms. Sandy Shaw: So it's been a confusing year, and those never went to estimates committee at all.

Ms. Karen Hughes: Right, because it was—

Ms. Sandy Shaw: Past the date.

Ms. Karen Hughes: —tabled after the third Thursday in November. I think it was deemed—

Ms. Sandy Shaw: Okay. So the point of all this for me is that within this year, we had those estimates, but this government has been making a lot of announcements about moving money around. For example, I just have to say that the Minister of Children and Community Services has said, "We went to the Treasury Board to ask for an extra $100 million." She said that a number of times, so I can only assume that that was a Treasury Board order that allowed the ministry to do that.

As legislators, how are we to know or understand or see those Treasury Board orders when they are in-year changes?

Ms. Karen Hughes: All the Treasury Board orders get recorded in the Gazette, so that happens after the year-end. They also, I believe, get recorded in the Auditor General's public accounts. I'm not sure which chapter records all that. Are they in this?

Ms. Bonnie Lysyk: It's 14.

Ms. Sandy Shaw: It's 14? Okay. Just so I'm clear, because it just seems—what's the word I want to use?—unbelievable that in-year changes can happen, and that as legislators we don't know what happened until it comes into the Gazette—which is how many months after year-end?

Ms. Karen Hughes: Quite a while after year-end.

Ms. Sandy Shaw: Like—

Ms. Karen Hughes: I'm not sure. I think six to eight months after year-end. It's quite a while.

Ms. Sandy Shaw: Okay. And so is there any mechanism—

Ms. Karen Hughes: It more accurately gets reported in the public accounts before the Treasury Board orders actually get gazetted. You'll see that the money that has been moved around in-year gets reflected within the public accounts, so the comparison from the start of the year at the budget and the final year—the public accounts would show all the money that had been moved around. This year's public accounts will actually be based on the estimates that were tabled last year and will show up in the former ministry structures, and all the funding will be related against those estimates and accounts.

Ms. Sandy Shaw: So in-year, before that happens, is there a mechanism for the legislators beyond the government cabinet to understand what Treasury Board orders are happening?

Ms. Karen Hughes: Not within the year. I think the public accounts are the first opportunity to actually see those changes that would have occurred.

Ms. Sandy Shaw: Okay. And then my final question is based on the Auditor General's report. It says here that the total value of Treasury Board orders by month relating to the 2017-18 fiscal—I'm looking at 14.3, page 64. It says that in September 2018—do you see that chart there?

Ms. Karen Hughes: Yes.

Ms. Sandy Shaw: So, in fact, there was almost more done in one month than had been in complete years previously. That's a lot of Treasury Board order changes in one month.

Ms. Karen Hughes: That would be the change in accounting treatment. That would be the addition of both the pensions coming onto the books, as well as the Fair Hydro Plan coming onto the 2017-18 books. That had to be done actually post-year-end to be able to reflect the proper accounting treatment, so that's why you see that large number there.

Ms. Sandy Shaw: Okay.

Ms. Karen Hughes: I think there was also an Indigenous land claim that we had to take on. That was a fair amount of money that would be included in that amount as well.

Ms. Sandy Shaw: So to make those accounting changes or to bring that back, that required a Treasury Board order?

Ms. Karen Hughes: Yes.

Ms. Sandy Shaw: Okay.

Ms. Karen Hughes: To be able to move it into the proper accounts so that it would show up in public accounts in the correct ministry, we would have had to have done a Treasury Board order, for example, for the Ministry of Energy, to take the Fair Hydro Plan onto the Ministry of Energy's accounts. I'm not sure exactly where the teachers' pension plan shows in the other sector; I think it shows up within the Ministry of Education's accounts.

Ms. Sandy Shaw: So essentially, just so I'm clear—honestly, I'm just trying to be clear, not to be repetitive—there's no way for MPPs to know what the in-year changes are until public accounts are finalized and the Gazette issues the Treasury Board orders—

Ms. Karen Hughes: That's correct. I believe that's correct.

Mr. Greg Orencsak: Maybe I can add to that, Ms. Shaw. Treasury Board orders relate to the inner workings of a very large government budget. Through the course of the year, we do quarterly reporting on the province's fiscal outlook. If you look at third-quarter finances, which were released in February, some of the information that I spoke to in my remarks was as of third-quarter finances for 2018-19, which reflects an in-year update.

1420

There are quarterly updates—the first-quarter finances, the mid-year update, the fall economic statement and the third-quarter finances—where the government provides updates in terms of progress against the fiscal plan for the fiscal year which we are in. That provides updates in terms of expected spending, expected revenues, expected interest costs and the deficit numbers.

Ms. Sandy Shaw: But it's aggregate. It's not just aggregated by ministry; it's a total number. Is that correct?

Ms. Karen Hughes: No.

Mr. Greg Orencsak: There are ministry updates reflected in there. There is a table that shows projected ministry spending.

Ms. Karen Hughes: At a high level.

Mr. Greg Orencsak: That's what's available to legislators and the public as well.

Ms. Sandy Shaw: All right. I think that's my Treasury Board order lesson that I was requesting. Thank you.

The Chair (Ms. Catherine Fife): MPP Morrison.

Ms. Suze Morrison: I have a question about hydro, actually. I'm curious to know if the fair-hydro-borrowing-scheme shell game that happened would have been technically possible if the province had maintained majority ownership of Hydro One.

Ms. Sandy Shaw: Or even necessary.

Ms. Suze Morrison: Yes. Like, if hydro were still publicly owned. No?

The Chair (Ms. Catherine Fife): The Auditor General would like to comment.

Ms. Bonnie Lysyk: The Fair Hydro Plan had nothing, really, to do with Hydro One.

Ms. Suze Morrison: Okay. That's fair. I was just curious about public versus private there.

I did have another few questions around the prudence of the government in paying down the debt as it relates to public and private partnerships. As Mr. Mayman said earlier, if you could make money on it in the private sector, they would be doing it. His comment was in reference to social capital. Considering that we have the debt burden that is the onus of the provincial government to be addressing right now as part of the audit recommendations, do you think it's prudent of the government, then, to be pursuing potential privatization initiatives—and how that relates to paying down the debt in terms of, for example, as we proceed with health care reform, how that opens up the potential for more private interests to be involved in our health care system, and how that carves away at the revenue of the government and their ability to pay down the debt if we're having to carve out private profit as a part of that process.

Mr. Greg Orencsak: Maybe I'll address that, and I certainly invite Gadi up to the table as well if he has any comments to add in terms of public-private partnerships.

In terms of how we would approach budgeting and the government's finances, it's with a view to, of course, efficiency, but also effectiveness. If you look at government as a whole and if you think about government as a purchaser of goods and services, does scale allow the government, for example, to be a better and more efficient purchaser of goods and services? And if there are, maybe, impediments to that in terms of how the government is organized, are there ways in which we can help remove those impediments so that government can be a more efficient purchaser and drive better value for money for procurement and efficiency? That's a better outcome that we can achieve for government as a whole, if we maybe do things differently or deliver a service differently. I think that's what, in large measure, tends to motivate budget deliberations as a whole in terms of, how can we deliver services better and also more cost-effectively?

I think this government has been looking at making certain structural changes in terms of how health care is delivered, but it has not been making changes to privatize health care. It's looking at removing bureaucracy in terms of health care management. Again, that's not something that is driving privatization. That is better organizing a service.

Ms. Suze Morrison: Maybe I can re-clarify: My understanding of the legislation of the health care reform bill, as it was before the Legislature, was that it doesn't explicitly prevent private interests from being lead organizations in the Ontario health teams.

When I think about the delivery of public health, and as I think about this in relationship to the debt burden, as we're discussing today, and the ability of the province to pay down that debt, considering that health care is one of our single largest expenditures as a province—when we look at a publicly delivered, not-for-profit model, we are not having to account for profit margins within the delivery of that service. If we create any potential whatsoever for private, for-profit interests—

The Chair (Ms. Catherine Fife): One minute left.

Ms. Suze Morrison: —we now have to account for a profit margin on top of the delivery of our service by opening up that delivery to the private sector.

Considering the debt before us—and I'm going to direct my question here, at the end—do you think it's prudent of this government to be entertaining privatization of services?

Mr. Gadi Mayman: I think that's a political question, and I'll leave that to the minister to answer.

Interjections.

Ms. Sandy Shaw: So if I could follow that up?

The Chair (Ms. Catherine Fife): You have less than 30 seconds.

Ms. Sandy Shaw: Go, go, go—30 seconds. How would that be factored into a debt burden reduction discussion as a factor? How would you factor that in, and how would the Legislature know that that was a consideration in your debt reduction plan?

Mr. Greg Orencsak: I think the government would look at delivering both effectiveness and efficiency. It would look to deliver—

The Chair (Ms. Catherine Fife): Okay. Thank you very much.

We have 14 minutes left. I think I'm coming back to MPP McDonell, then followed by MPP Barrett—so, 14 minutes, starting now.

Mr. Jim McDonell: I'm going to let you continue. I guess you were in the middle of the public sector accounting standards, and the importance of that. I'll let you finish that off.

The Chair (Ms. Catherine Fife): Welcome back.

Mr. Gary Wuschnakowski: As I mentioned earlier, the Office of the Provincial Controller takes an active role in the standards-setting process that is led by the Public Sector Accounting Board.

We lead the province's activities in terms of timely responses and providing comments to the board. We're responsible for reviewing those standards, or proposed standards, that are coming out of the Public Sector Accounting Board.

Responses are provided and prepared through performing research, including jurisdictional scanning, as I mentioned earlier, working with other jurisdictions and speaking with them, as well as collaborating with other OPS stakeholders in terms of determining what the impacts of those standards would be on our financial statements.

The proposed changes, associated risks and opportunities are analyzed and evaluated by a team of professionals to determine the impact on the province.

As was noted in the Independent Financial Commission of Inquiry, one of the recommendations was that the province take an active role in the standards-setting process established by the Public Sector Accounting Board. It has been demonstrated through a number of significant contributions that the province has made to the establishment of those standards over the past year. I have a list of a number of them that I'd like to present.

Early last year, in March, at the beginning of the fiscal year, the province responded to an invitation to comment by the Public Sector Accounting Board on employment benefits and discount rate guidance, per section 3250 of the accounting standards.

In September of last year, a consultation paper was responded to in terms of reviewing the Public Sector Accounting Board's approach to international public sector accounting standards. The objective of that consultation paper was to make stakeholders aware of the process that PSAB would be following in evaluating international standards and how they best serve the public sector.

A key project that the Public Sector Accounting Board has been working on for a number of years is a revised conceptual framework. A statement of principles was released by the board that the province worked on, in terms of responding, which we completed in November of the previous year. I would add that the province, as well, coordinated a consultation session on behalf of the public sector board with our provincial counterparts, speaking to the impacts of the conceptual framework, and coordinated a cross-country-conference discussion to provide feedback to the board in terms of revising the model for public sector standards.

1430

Just in February of this year—following on the invitation to comment of the previous member—we provided additional information on employment benefits and non-traditional pension statements and have played an active role in providing support back to the board and, most recently, an exposure draft on improvements to the standards-setting process. The board itself is reflecting on different categories for improvement in how they approach the development of standards, and we've provided our feedback and comments to them.

I would summarize that, obviously, Public Sector Accounting Board standards are critical in how we represent and report the financial statements and how we account for the expenditures, revenues, assets and liabilities of the organization. There is an extensive amount of work that's performed and prepared by the province in collaboration with our partners in other jurisdictions and other governments across the province and our relationship with the standard-setters.

Mr. Jim McDonell: I guess I would suggest that, in a democracy, it's important for the public to be able to hold the government to account or to be able to judge just how well they're doing. These standards allow us not only to compare ourselves, the government of the province, but also how we compare to other jurisdictions across the world. I can think of some jurisdictions where they've essentially gone bankrupt, and the people seemed quite surprised by it. Can you maybe comment on just the importance of some of the—whether it be your bond rating or all the agencies that depend on knowing that our standards are of a quality that can be believed and be depended on?

Mr. Gary Wuschnakowski: That's right. A key component of the preparation of financial statements is ensuring the reliability of those statements, as demonstrated by an unqualified or clean opinion, which clearly indicates that those statements can be relied upon for information and understanding, in terms of the expenditures, assets, liabilities, revenues and representation of the financial statements.

Mr. Jim McDonell: The importance of this—highlighting that this government has made a number of changes; maybe you could just go over them—to allow the auditor to provide that clean statement. It wasn't there a year ago or over the last number of years—I guess, the last three years.

Mr. Gary Wuschnakowski: The province has followed and has been following Public Sector Accounting Board standards, as other governments do, ensuring, as you mentioned, comparability and reliability of those standards. In fact, there are a number of new standards that will be coming into play over the coming years; 2020-21 is actually quite a big year for implementation of new standards that will be coming in force.

In particular, I think a key component and a change that you'll begin to see in the application of those standards is with the financial instruments standards that will be coming into play, as I said, in 2020-21. That will result in a new statement that will be provided to the public in the public accounts called A Statement of Remeasurement Gains and Losses. It's tied very much to the financial instruments, how we account for those financial instruments and the application of that. So there will be a change that would be associated with how we present those statements and move forward in that regard. As you can see, the standards and the application of those standards play a critical role in ensuring reliability and transparency in the reporting of our statements.

Mr. Jim McDonell: I'll pass it over.

The Chair (Ms. Catherine Fife): MPP Barrett.

Mr. Toby Barrett: I appreciate the discussion about the deficit and the debt and the work of the Auditor General, over a number of years, reminding us of the debt-to-GDP ratio. I was shocked to hear that it's over 40% now.

A year or so ago, I was in the Midwest, sitting around a table with some elected guys—ranchers—and I was talking about Ontario's debt. It wasn't as high as $346 billion. They almost drove me out of the room. It was embarrassing. They could not believe that a jurisdiction would have a debt that high. I think they were representing some states where it's illegal to have any kind of debt, as I understand it.

Maybe it's just personal. For years, I've been worrying about the deficit and the debt. I think that's one of the reasons I decided to run for office in the first place. I find, as an elected representative, even in my home rural area, people don't know the difference between the deficit and the debt. They don't think about it. They're sick of me talking about it, and I stopped talking about it for a number of years.

I appreciate the work that is being done with respect to raising some awareness and the transparency. This is complicated stuff. I don't know how many lawyers are in the room. I guess accountants and economists are maybe second only to them in perhaps failing to explain to the people of Ontario, in my view, the seriousness of this net debt, this series of accumulated deficits that got us where we are.

Is the Ontario government—I mean, some of us try as elected people. Are we in a position to better explain to people just what's really going on and, secondly, how we're going to dig out of this hole and how long it might take even to start to dig out of the hole? Any comments on that?

Mr. Greg Orencsak: Sure. As an economist myself, I'm probably one of those people who have failed to explain this appropriately to the public at large.

Interjection: Here's your chance.

Mr. Toby Barrett: I studied it long enough. I know how much I don't know. I decided not to do the next degree.

Mr. Greg Orencsak: Yes. Kidding aside, I think one of the things in some of the information that we publish is important in the context of putting the debt into context by people.

I think that maybe a number such as $346 billion doesn't resonate particularly well, because it's very difficult to relate to, let's be honest about it. But maybe if you break it down in terms of what that means for the average person. If you divide $346 billion by the number of people in this province, that works out to about $24,000 per person. If you multiply that by four for a family of four, that's about $100,000. If someone has a $100,000 mortgage, that is a significant mortgage on their house. If you put into context that they also owe $100,000 of the debt that the public holds—it is public debt and it all needs to be paid back at some point.

It is something that has an impact on future generations, because the government raises the vast majority of its revenues through taxes. Debt can also be put into the context of deferred or future taxation, because the kids who might not appreciate what their $24,000 share of that debt is today will eventually grow up and have to pay taxes, and some of their taxes will end up going toward servicing that debt.

From a public policy context and as a public servant, I am obviously concerned about that issue and in terms of what that means in terms of providing public services that people rely on, but also in terms of the sustainability of our finances, so that we can continue to provide quality services and we can continue to have a tax system that is competitive vis-à-vis our neighbours so that we can continue to attract—

The Chair (Ms. Catherine Fife): Last minute.

Mr. Greg Orencsak: —investments and businesses to this province.

Mr. Toby Barrett: Maybe, quickly, if I could: As you said, it all needs to be paid back, and I think some people don't believe that somehow. I think of the US federal level where they have a debt—I can't remember what it is now—in the trillions. What you just said seems to fly in the face of what a major economy like that—they have a very significant economy, but it all needs to be paid back to whoever is lending the money. Are they in no position to have anything otherwise happen? Is it truly—

The Chair (Ms. Catherine Fife): Fifteen seconds.

Mr. Toby Barrett: —that it does need to be paid back, or are we living in a fool's paradise?

Mr. Greg Orencsak: No, I'm afraid to say it all does need to be paid back. Every last cent that's borrowed needs to be paid back, and the consequences of not paying back is severe in terms of future access to capital markets.

The Chair (Ms. Catherine Fife): Okay, and with that, that concludes our time for questions this afternoon. I do want to thank Mr. Gregg, Ms. Hughes and Mr. Orencsak, as well as, of course, Mr. Mayman and Mr. Wuschnakowski. I would of course like to thank you all for appearing today. This is obviously an important issue. We selected this chapter to review and so this is a group decision as a committee.

We will be going into closed session, but I do want to remind committee members that next week Darlington Nuclear Generating Station Refurbishment Project, which is section 3.02 of the 2018 annual report, will be before us. The Ministry of Energy and OPG will be here as delegations, so if you have specific questions for the ministry and for OPG, if you would get those to the Clerk by noon on Friday, hopefully, so that they can address them in their opening remarks so it could be a more efficient use of our time.

With that, we will now be going into closed session so that the committee can commence report-writing. I'd like to thank all members of the public and also ask that the members of the public leave the room for closed session. Thank you very much.

The committee continued in closed session at 1442.

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Also taking part / Autres participants et participantes
Ms. Bonnie Lysyk, Auditor General

Clerk / Greffier
Mr. Christopher Tyrell

Staff / Personnel
Ms. Laura Anthony, research officer,
Research Services