

Fedeli Focus on Finance

\$11 billion hole in the budget

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\$11 billion hole in the budget

For the very first time in the history of our province, the government is releasing an UNAUDITED Annual Report. That's because the Auditor General (AG) won't sign off on it. Instead of receiving the Annual Public Accounts, due on September 27, the Legislature, taxpayers, and lenders, are receiving a set of unaudited books, almost a week later. This alone should be ringing alarm bells across the province.

But what's worse, this is not the only deadline the government ignored. The *Fiscal Transparency and Accountability Act* states the Minister of Finance must release a long-term assessment of Ontario's fiscal environment within two years of each provincial election. That June 12 deadline was missed; the report has *still* not been filed. (But don't hold your breath; we're also waiting for the report owed two years after the 2011 election as well.) Furthermore, the government missed filing their 3rd-quarter results last February, and has missed filing them since 2012. There's something seriously wrong with repeatedly missing these deadlines.

So what's this latest news all about?

In a sentence, it's all about how to account for pension funds. The Auditor General wants this year's \$1.5 billion the government paid into public funds to be counted as government spending, and the current surplus of \$10.7 billion not to be considered a government asset. Why? Because the \$1.5 billion was paid as the government's share and is not available to be spent again, and the \$10.7 billion surplus cannot be accessed by the government, so it shouldn't be used to reduce their debt.

To use their own words, here are submissions from both parties, outlining their positions.

In writing to Treasury, the AG stated that the government does not have a legally-enforceable right to unilaterally access the assets of these jointly-sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension

asset should be removed from the province's balance sheet. And the AG stated the province would need to take a full valuation allowance of the \$10.7 billion pension assets currently reported for the Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP), which would eliminate these assets from the province's consolidated financial statements.

The province claims that based on professional staff's interpretation of Public Sector Accounting Board (PSAB), the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the province's financial position. And they say that despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value.

Given that the AG would not sign-off on the Public Accounts document, Cabinet approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for 2015-16. They then issued their own Unaudited Annual Report – with NO comment from Ontario's Auditor General. This is unprecedented.

They issued this report in a hastily-convened news conference. I attended both the emergency technical briefing followed by the Ministers' news conference. The government was very quick to blame the situation on the Auditor General. And they were very quick to suggest that how they reported pension assets has been consistent for the last 14 years. But the Auditor General offered her reasoning behind the change. She said "We saw an increasing trend in the pension asset. We saw there wasn't a way to adjust that asset down. We saw the upward impact it would eventually have on the statements." When asked about the criteria used to determine whether there should be a change in pension accounting, she stated, "Can the government access it? Do they have unilateral control over it? Is it something the

government's creditors can access? We obtained a no to all of that. It's a notional number that doesn't have the backing of cash or assets." Finally, when asked what changed this year compared to past years, she offered, "The significance of those figures has grown. There's something called materiality ... because there's a build-up here, we're now sitting with an asset of a certain value. It is big enough to look into a little more deeply."

In continuing to take aim at the AG, the government said she only told them of this accounting change two weeks before the deadline. They repeated this over and over; so much so that the media picked it up as a theme. But here's where the story doesn't align with the facts. First, read what the AG released on October 3, while the government was holding their news conference.

Auditor's Response to Government's Release of Unaudited Financial Statements

The Office of the Auditor General is disappointed that the government decided to release the Consolidated Financial Statements for the Province of Ontario without the Auditor's opinion, the Auditor General of Ontario said today.

"This is the first time in the history of Ontario that the statements have been released without the audit opinion," Bonnie Lysyk said.

"As late as 10:30 a.m. this morning, we were still in discussions over an accounting issue that we brought to the government's attention in June of this year," Lysyk added.

Lysyk concluded, "We continue to work toward finalizing the opinion on the Consolidated Financial Statements for the Province of Ontario for the year ended March 31, 2016."

*Bonnie Lysyk
Auditor General*

In her letter the AG said they have been talking about this since June ... not just two weeks ago. But it actually goes back even further. In her 2015 Annual Report, AG

Bonnie Lysyk spent a considerable number of pages devoted precisely to this issue. In the chapter on complying with the standards of the Public Sector Accounting Board (PSAB), the AG said "However, we have identified a number of areas where additional information to improve insight into the province's financial position and annual operating results for the year could be incorporated in the Financial Statement Discussion and Analysis (FSD&A). Even the government's own Technical Briefing handout outlined a Timeline page, which quite clearly identifies in June, "Revised Audit Planning Report issued by AG reflects review of accrued pension benefit assets".

It's further obvious that these changes came as no surprise, as the government is claiming; in fact it appears the government was fully prepared for it. If you look throughout the Unaudited Annual Report, there are detailed mentions of this new pension treatment on dozens of pages. They add an explanatory sentence "mainly due to a change in the accounting treatment for pension assets of jointly-sponsored pension plans" liberally, throughout the document. The charts all include this new treatment. The words Public Accounts are not to be found anywhere (nor should they). All the documents are also translated and printed in French. The binders that were delivered on the day of the announcement all included colourful covers titled Annual Report (again, not Public Accounts). The point I am making here is that all this simply could not have been done in a day, or a week or so. This was all prepared long in advance – despite the government's insistence the AG "sprung" this on them.

By the numbers

The Unaudited Annual Report offered some interesting insight into Ontario's struggling finances, for what it's worth.

Year-over-year, total spending rose by \$4.6 billion, or 3.5%, from \$128.8 billion to \$133.4 billion. The government missed both its 2015 Budget Program Review savings target of \$490 million and year-end savings of \$1 billion.

The government acknowledged that the sale of Hydro One contributed \$2 billion to their revenues. Of course we know this is only a one-time revenue generator and is not sustainable. In fact, the FAO has confirmed the sale of Hydro One will have a negative impact on the province's bottom line in the long run.

From just 2011, the amount of taxes imposed by the government has increased by \$16.2 billion to a record \$91.8 billion this year. That's an increase of 21.4% in just 5 years.

Net debt grew by \$20.6 billion during the year.

Budget 2016 indicated Net Debt-to-GDP was expected to peak at 39.6% in 2015–16. The statement indicates it will grow to 40.9%. (This takes into account the new accounting of pensions; under the previous structure the number would have remained unchanged). However, the Finance Minister's Mandate Letter reiterated the government's commitment to reduce the Net Debt-to-GDP to 27%.

Conclusion

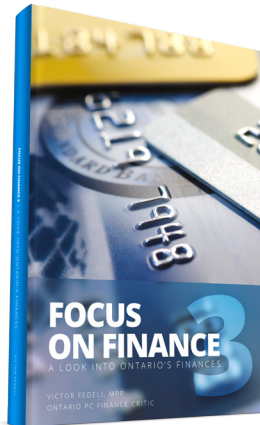
It's uncertain to me why the government would go through with this charade. To me picking a public fight with the Auditor General is not a great message to send to Ontario families or to the province's lenders. This month, I'll leave it to you to draw your own conclusions.

Key Questions

Why does this government continue to publically challenge the Legislature's Officers?

What is it the government does not want us to see?

Why did the government raise taxes by more than 20% over the last five years?



Similar stories of waste, mismanagement, and scandal are disclosed in my newest book, **Focus on Finance 3**.

Please go to www.fedeli.com to download your own copy of the book.

If you would like to read previous issues of Focus on Finance, please go to www.fedeli.com or email us and we'll add you to our electronic mailing list.



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