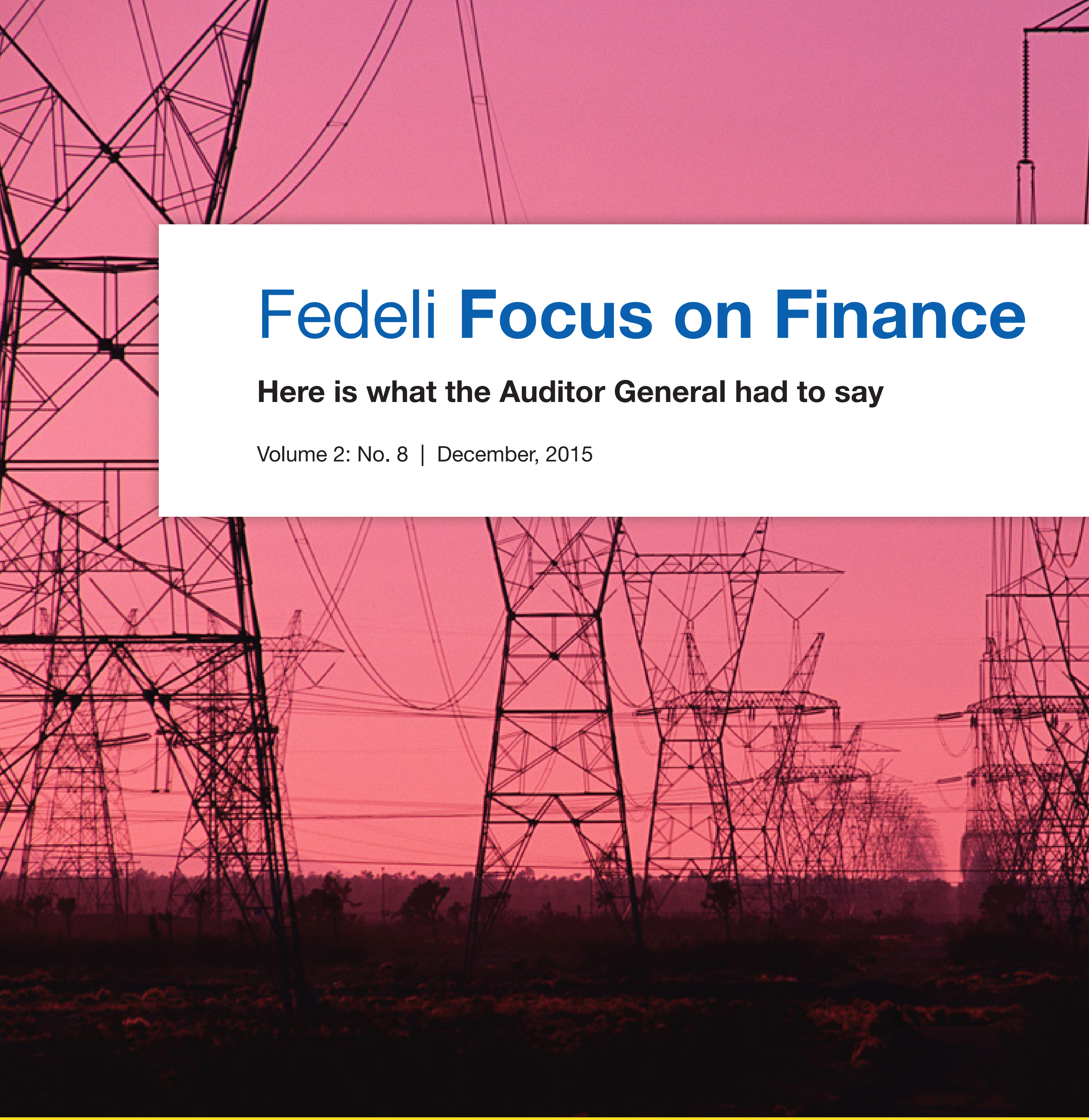

Fedeli **Focus on Finance**

Here is what the Auditor General had to say

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Ontario

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Here is what the Auditor General had to say

We talk an awful lot about debt and deficit, and thankfully we're starting to read more about it as well. Regular national columns are appearing from former Finance Minister Joe Oliver, the Canadian Taxpayers Federation's Christine Van Geyn, author Candice Malcolm, and the Fraser Institute. The Legislature's own Financial Accountability Officer, Stephen LeClair, weighed in with his first report, expressing his doubts about this government's plan to balance the budget.

And now, we have another Auditor General report that has red lights blinking.

As with her 2014 Annual Report, the 2015 Report devotes significant focus to Ontario's growing debt burden, with a closer look at the implications of the debt on the province's finances. Specifically, Auditor Bonnie Lysyk wrote *"The negative impacts of a large debt burden include debt-servicing costs that divert funding from other programs, greater vulnerability to the impact of interest rate increases, and potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive for Ontario to borrow."*

ONTARIO LONG-TERM CREDIT RATINGS

Date		Rating
Today	S&P	A+
	Moody's	Aa2 (N)
	Fitch	AA-
	DBRS	AA (low)
July 6, 2015	S&P	Downgrade from AA- to A+
Dec 19, 2014	Fitch	Downgrade from AA to AA-
July 2, 2014	Moody's	Debt Rating Outlook cut from Stable to Negative
April 25, 2012	S&P	Debt Rating Outlook cut from Stable to Negative
April 26, 2012	Moody's	Downgrade from Aa1 (N) to Aa2 (S)
Oct 29, 2009	S&P	Downgrade from AA to AA-
Oct 22, 2009	DBRS	Downgrade from AA to AA (low)

Consistent with her commentary last year, she instructs the government to provide *"long-term targets for addressing the current and projected debt"* and to *"develop a long-term debt-reduction plan outlining how it will achieve its own target of reducing net debt to GDP from its current 39.5% to the (Premier Harris era) ratio of 27%."* Net debt at March 31, 2015 stood at nearly $284.5 billion.

In Ontario, our ratio of debt to GDP is rising. This means our net debt is growing faster than the provincial economy, and becoming an increasing burden. The increase in the cost of servicing this debt (interest expense) directly affects the quantity and quality of programs and services the government can provide.

In her 2014 report, the Auditor General commented extensively on the consequences of high indebtedness. She said *"Ontario's debt continues to grow faster than the province's economy, which could have negative implications for the province's finances."* She warned the consequences of higher debt would result in *"the 'crowding out' of other spending, greater vulnerability to a rise in interest rates, and a possible downgrading of the province's credit rating which would lead to higher future borrowing costs."*

Her warnings went unheeded, and Ontario saw two downgrades; first Fitch downgraded the long-term rating from AA to AA- followed by S&P, lowering the rating from AA- to A+.

In the 2015 report she notes the very same observations remain relevant, as her concerns continue to be ignored. Here are the three points she makes again this year:

- Debt-servicing costs cut into funding for other programs
- Greater vulnerability to interest rate increases
- Potential credit-rating downgrades could lead to higher borrowing costs

The most significant request from the Auditor came in her 'Final Thoughts' in the Public Accounts chapter. She states *"... this would be a good time for the government, legislators, and the public to start a conversation about the potential reduction of the provincial debt. We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits."* She concludes with *"... no clear strategy has been articulated for paying down current and future debt."*

The Auditor General's 2015 Annual Report

The 2015 Annual Report covered results from a wide range of value-for-money audits, including energy planning, health-care services, long-term-care homes, child welfare, infrastructure planning, and electricity transmission and distribution.

The Auditor's News Release stated "This year's report shows there are numerous areas where improvements are needed to enhance the quality and cost-effectiveness of government and broader-public-sector services."

There were 14 value-for-money audits contained in the report, as well as a chapter on annual reports of government agencies and a chapter on government advertising. Here is a synopsis of each chapter, beginning with a direct quote from the Auditor General followed by a short summary.

Community Care Access Centres – Home Care Program

"Five years after the last audit, home care problems linger"

The province has yet to correct many of the problems in the Home Care Program of Ontario's 14 Community Care Access Centres that were identified in an audit the AG's office completed five years ago. Over the last six years, the Ministry has increased spending on home-care services by 42%, while the number of clients served increased by 22%.

Child Protection Services – Children's Aid Societies

"Children's Aid Societies need to better adhere to protection standards and may be closing cases too soon"

Children's Aid Societies are not always meeting provincial protection standards, may be closing cases too soon, and are taking too long to complete investigations of possible abuse. In more than half the reopened files, the circumstances and risk factors were present when the case was initially closed.

Child Protection Services – Ministry

"Province can't ensure effective oversight of Children's Aid Societies"

The Ministry of Children and Youth Services lacks sufficient information about the quality of care provided by Ontario's 47 Children's Aid Societies to oversee them effectively. The $150 million Child Protection Information Network (CPIN) system was to be in all 47 Societies by now, but has been installed at just five. It is now forecasted to be deployed in the remaining 42 by the end of 2019/20 at an additional cost of $50 million.

Economic Development and Employment Programs

"Business support funding lacks transparency, overall strategy, and assessment of results"

Over the last five years, 80% of the funding the Ministry of Economic Development, Employment and Infrastructure approved to support businesses went to select companies that were invited to apply for it. But the Ministry could not provide the criteria used, or a list of those whose applications were unsuccessful. Over the last 10 years, the government has doled out almost $1.5 billion and publicly re-announced almost $1 billion of economic development funding that had already been announced under different funding programs.

Electricity Power System Planning

"Over the last 10 years the Ministry of Energy issued directives that sometimes went against the OPA's advice. Electricity ratepayers have had to pay billions for these decisions"

From 2006 to 2014, the electricity portion of the hydro bills increased by 70%. In particular, the Global Adjustment (excess payments to generators over the market price) cost consumers $37 billion during that period, and is projected to cost an additional $133 billion from 2015 to 2032. Consumers paid $9.2 billion more for renewables under the Green Energy Act than they would have paid under the previous procurement program.

Hydro One – Management of Electricity Transmission and Distribution Assets

"Hydro One's transmission and distribution systems are becoming less reliable, yet costs are increasing"

In recent years, Hydro One's transmission and distribution systems have become less reliable, yet their costs are increasing. Customers have experienced 24% more outages and those outages have lasted 30% longer. Meanwhile, costs to maintain the transmission system have increased 31% over the same period.

Infrastructure Planning

"Ontario needs to better prioritize infrastructure investments"

Given that Ontario plans to spend more than $130 billion on infrastructure over the coming decade, it needs to better identify and prioritize where the spending should be directed. Although the government plans to devote two-thirds of its infrastructure spending to new construction and one-third to repairs and maintenance of existing properties, its own analysis of ministry information shows these proportions should be reversed.

Local Health Integration Networks

"LHINs' marching orders not clear enough and performance gaps widening"

Ontario's 14 Local Health Integration Networks have a mandate to plan, fund, and integrate local health systems, but the Ministry of Health and Long-term Care has not clearly outlined what the end result should look like and when it should be achieved. During the audit, one LHIN had not met the wait-time target for MRI scans in six of eight years; another had not met its hip-replacement wait-time target in seven of eight years. The Ministry responded by relaxing targets for some LHINs.

Long-term-care Home Quality Inspection Program

"Backlog and delays in critical-incident and complaint inspections of long-term-care homes"

The Ministry of Health and Long-term Care fell behind on its critical-incident and complaint inspections at the province's 630 long-term-care homes. The backlog has doubled between December 2013 and March 2015, from 1,300 to 2,800. Such delays can place residents at risk.

Management of Contaminated Sites

"No co-ordinated provincial plan to prioritize the cleanup of contaminated sites"

Although individual ministries have their own list of contaminated sites, the government has no centralized inventory or funding strategy in place for cleaning up contaminated sites.

Mines and Minerals Program

"Province could do more to encourage mining development in Ontario"

Although Ontario is the largest mineral producer in Canada, accounting for one-quarter of total Canadian mineral production, a survey of mining and exploration companies ranked Ontario ninth among Canadian provinces and territories in investment attractiveness in mining exploration. In addition, the chromite and nickel deposits in the Ring of Fire have an estimated value of $60 billion, but the province has no detailed plan or timeline for supporting the development.

Social Assistance Management System

"Social-assistance IT system (SAMS) launched prematurely with serious defects"

A new computer system used in the administration of social assistance (SAMS) was launched prematurely with serious defects, at a cost of $200 million, which was about $40 million over budget, with additional costs to fix the defects that are expected to bring the total cost to about $290 million.

Student Transportation

"Province could do more to further minimize risks to students being transported to and from school"

Risks need to be considered and minimized in three key areas that impact the safe transport of students: bus driver competence, vehicle condition, and student behaviour on buses.

University Intellectual Property

"Impact of provincial funding for university research not evaluated"

The Ministry of Research and Innovation does not track the total funding ministries and agencies invest in research and does not evaluate the impact of funded research. This results in difficulty determining whether value for money is being achieved. The AG stated universities garner the largest share, receiving $1.9 billion over the last five years.

Towards Better Accountability

"Government late to release annual reports of its agencies"

The annual reports of some of Ontario's largest agencies are not being made public in a timely manner – or not at all in some cases. A review of 57 agencies over the past three years found that only 5% were tabled within six months of their fiscal year-end, 68% tabled after more than 12 months, and 6% had not been tabled at all.

Review of Government Advertising

"The amended Act now requires our office to 'rubber-stamp' all advertising, including items we believe were partisan under the original Act"

The Ontario government made significant changes to the Government Advertising Act, 2004 this year, and in the process it significantly weakened the Auditor General's ability to ensure that no public money is spent on advertising that is partisan. It is noteworthy that the Auditor also commented on the process used to amend the Act. Bonnie Lysyk was critical with both words and tone describing the fact her office was not consulted in advance nor given a draft copy. In fact, she went so far as to release a Special Report outlining her concerns.

Conclusion

Ontario reported a higher net-debt-to-GDP ratio than every other province except Quebec. With the Auditor General having to repeat her warning about debt and deficit, almost word-for-word from last year, it's clear this government is not taking the problem seriously. The government has no credible plan to reduce the debt and eliminate the deficit.

This inaction results in the 'crowding out' the Auditor spoke of. An example exists in my home town of North Bay, where our hospital has been forced to cut 350 frontline health care positions in the last three years, including 100 nurses!

In addition, the Auditor pointed out several examples where past audits have revealed serious flaws that have gone unheeded and recommended fixes.

Finally, we saw far too many examples of a government doing what's in their best interest, not in the best interest of the people of Ontario. The 93 Ministerial directives in the energy file, which caused our rates to soar; the awarding of over a billion dollars in business funding to select companies; selecting infrastructure programs against the advice of their own experts; holding back annual reports from being tabled in the Legislature; and changing the government advertising rules to allow for partisan ads are all clear examples.

To view the full report, please visit www.auditor.on.ca

Key Questions

Will the government implement all the recommendations made by the Auditor General within the timeframe recommended?

Will the government provide a credible, detailed plan to eliminate the deficit and achieve a 27% net-debt-to-GDP ratio?

Will the government commit to releasing all outstanding agency annual reports?

Will the government heed the warnings of the Auditor General and reverse the changes made to government advertising?

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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