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Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

Presentation to Treasury Board/ Management Board of Cabinet

September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Context

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- Under the Financial Administration Act ("FAA") Treasury Board, subject to the approval of the LGIC, has the power to make regulations with regard to the accounting policies and practices used to prepare the Consolidated Financial Statements

- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

- Our current situation is somewhat similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for pension plans jointly sponsored by the Province, included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or plan surplus for accounting purposes) in Ontario Teachers' Pensions Plan (OTPP) and Ontario Public Service Employees Union Pension Plan (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

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- In order to produce the Public Accounts with accounting that supports the Auditor General's view for jointly sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the Auditor's desired treatment.

- The Province will work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

Proposed Minute

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- Make, subject to LGIC approval, a regulation under the Financial Administration Act (amending O. Reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans to take a valuation allowance equivalent to the plan surplus for the 2015-16 consolidated financial statements in the Public Accounts.

- Approve/Note the increase in the statutory account "Teachers' Pension Plan" of $1,479,914,043 for the Ministry of Education for an increase in Elementary and Secondary Education Program - Vote 1002

- Approve/Note the increase in the statutory account "Prior Period Obligations and Actuarial Adjustments, the Financial Administration Act" of $33,716,990 for Treasury Board Secretariat for an increase in Employee and Pensioner Benefits (Employer Share) Program - Vote 3403

Appendix 1: Draft Regulation

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FINANCIAL ADMINISTRATION ACT

Amending O. Reg. 395/11

(ACCOUNTING POLICIES AND PRACTICES)

1. Ontario Regulation 395/11 is amended by adding the following section:

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016 shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2015.

(2) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.