ADD-ON ITEM
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ontario

Ministry:	Treasury Board Secretariat, Education
Meeting Date:	September 28, 2016
Agenda Class:	Discussion
Last reviewed by: N/A	**Tracking to:** Cabinet

SUBMISSION TITLE: Accounting Regulation under the *Financial Administration Act*

I. DECISION BEFORE THE BOARD

Treasury Board Secretariat is requesting approval of a regulation under the *Financial Administration Act* to clarify the accounting treatment of pension surpluses in jointly sponsored pension plans.

II. RECOMMENDATIONS:

• Approve a regulation under the *Financial Administration Act* to prescribe the accounting treatment of pension surpluses in jointly sponsored pension plans in the Province's Consolidated Financial Statements in the 2015-16 Public Accounts.	*Approve*
• Approve a 2015-16 statutory appropriation increase of $1.5B in the Ministry of Education (Teachers' Pension Plan) and Treasury Board Secretariat (OPSEU Pension Plan).	*Approve*

III. FINANCIAL SUMMARY

$ Millions	**2015-16**	**2016-17**	**2017-18**
Initiative cost requested	1,513.6	TBC	TBC
Initiative cost recommended	1,513.6	0.0	0.0
Program Base	0.0	0.0	0.0
Release from holdback	0.0	0.0	0.0
Total Fiscal Impact	1,513.6	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

Background

Under the *Financial Administration Act* (FAA), Treasury Board, subject to the approval of the Lieutenant Governor in Council, has the power to make regulations with respect to the accounting policies and practices used to prepare the Consolidated Financial Statements of the Province.

In the past, the government has used regulatory powers under the FAA 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 Board

(PSAB) standards.

In applying principled-based accounting standards, there is a degree of professional judgement required. Currently, the Province and the Auditor General (AG) have a different opinion on the application of accounting standards related to jointly sponsored pension plans included in the Province's Consolidated Financial Statements.

Province's Position

The asset balance (or plan surplus for accounting purposes) in both the Teachers' Pension Plan (TPP) within the Ministry of Education and the OPSEU Pension Plan (OPSEUPP) within Treasury Board Secretariat 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.

Auditor General's Position

Since the AG disagrees with the Province's position, they are requesting a valuation allowance to remove the asset value which would result in an in-year expense.

Note: A valuation allowance is an amount recorded to recognize the potential reduction in value of a recorded asset due to the recorded amount not likely to be fully recovered or fully realized.

Current Request

In order to produce the 2015-16 Public Accounts with accounting treatment that supports the AG's view for jointly sponsored pension plans, it is recommended to clarify the accounting practice to be followed 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 AG by legislating the treatment.

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

As a result of clarifying the accounting practice through legislation, a fiscal impact will be realized through an increase in statutory appropriations for the Ministry of Education and Treasury Board Secretariat in the amount of $1.5B.

Risks

There is a risk that the Auditor General will not react favourably to the government making this regulatory amendment.

Name of analyst:	Lenna Wichenko	**Phone number:**	416-325-6751
Date:	September 28, 2016	**Log number:**	
Branch / Division:	GGPR/PEMD		

APPENDIX A: PROPOSED MINUTE

Approve an accounting regulation under the Financial Administration Act that supports the audit of the Public Accounts for the Province.

In this regard,

- Approve a regulation, subject to Lieutenant Governor in Council approval, 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 an increase in statutory appropriation for the Ministry of Education of $1,479,914,000 in the Government Costs, the Teachers' Pension Act Transfer Payment (Vote/Item 1002-S), in 2015-16.

- Approve an increase in statutory appropriation for Treasury Board Secretariat of $33,717,000 in Employee Benefits – Ontario Public Service Employees' Union Pension Plan (Vote/Item 3403-S), in 2015-16.

Asset → pension surplus.

– instrument will facilitate a fix.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE

TABLE B1

$ Millions		Fiscal Plan Basis 2015-16	Fiscal Plan Basis 2016-17	Fiscal Plan Basis 2017-18	Appropriations Basis 2015-16
Initiative cost recommended		1,513.6	0.0000	0.0000	
Expense changes:					
Operating item	Oper	1,513.6	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	0.0000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**1,513.6**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C – DRAFT REGULATION

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

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.