RE: Accounting for the remedy accrual

From: "Laughton, Patrick (TBS)" <patrick.laughton@ontario.ca>
To: "Provis, Ian (TBS)" <ian.provis@ontario.ca>, "Chen, Raymond (TBS)" <som.5raymond.chen@ontario.ca>
Cc: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
Date: Wed, 28 Sep 2016 16:10:06 -0400

Hi Ian –

Thanks very much for this.

Kyle in the DMO has asked for a short briefing note on this. I know there's lots on the go right now, so don't want to divert your attention unnecessarily – will give you a call in a bit to talk about timelines.

Thanks,

P. .

From: Provis, Ian (TBS)
Sent: September-16-16 5:24 PM
To: Laughton, Patrick (TBS); Chen, Raymond (TBS)
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: Accounting for the remedy accrual

A year-end accrual records a liability and an expense for a year (in this case 2015-16 for the remedy accrual). In the following year the accrual is reversed eliminating the liability, the accrual reversal and the payment amount net to result in no new expense in this year (2016-17). (The cost is in 2015-16 but the payment is made in 2016-17)

When the accrual is an estimate like with remedy, and the amount paid in the following year is less than the accrual, the difference between the accrual and the amount paid is treated as a prior year recovery (a revenue) resulting in a positive fiscal impact.

If the remedy negotiation does not result in retroactive pay, and is settled through increased future costs such as an increase to future wage rates, the full cost may not occur in 2016-17. For example if the negotiation resulting in a wage increase that would result in $50M/year increased salaries going forward from 2016-17 as part of a new salary base. The reversal of the 500M accrual less the costs paid in 2016-17 would result in a net fiscal impact in 2016-17 of a $450M recovery with a pressure of $50M per year going forward after that.

As this volatility might be an audit consideration, an alternative treatment might be to consider to reverse the accrual by the cost related to the remedy. In this example only $50M of the accrual would be reversed per year for the next 10 years matching the reduction of the accrual to the incremental cost impact being expensed each year until the liability is fully extinguished.

This should be reviewed when a an agreement on the remedy is completed to determine the most appropriate treatment.

Please let me know if you have further questions.

If we pay no retro and all remedy obligation is on future salary to be booked as the salary costs are paid in the future, under regular accounting we would have a revenue of 500M in 2016-17. I am under the impression should would not allow this or include it on the SUDs list for next year impacting how we do public accounts. She would probably have us recognize it over the period it costs us the 500M in future payments. So if we increase the grid going forward it may take several years to pay out the difference and the accrual would be reversed to offset the incremental cost instead of the one-time recovery in 2016-17

It should also be noted that EDU is quite concerned with the accrual being disclosed even after the remedy negotiation is completed. It they settle for 100M and find out we accrued $500M it might impact the negotiations as being what the province expected to pay,

Ian

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