1 - Email - February 1 2017 - House Book Note for Panel.pdf

From:	Hosick, Sarah (TBS)
To:	Petsche, Nadine (TBS); Tam, Nelson (TBS)
Cc:	Veinot, Cindy (TBS)
Subject:	House Book Note for Panel
Date:	February-01-17 1:13:04 PM
Attachments:	Public Accounts- November 10 2016.doc

Hi Nadine and Nelson,

In the Public Accounts HBN from the fall we had a section on the panel (see attached). This needs to be updated, including key messaging for the panel.

This, along with the other comms products, need to be final by next Wednesday. Therefore to get it through approvals, we should get the updated note for Cindy's review by the end of this week.

Happy to discuss.

Thanks
sarah

Public Accounts- November 10 2016.pdf

Confidential **November 10, 2016**

2015-16 PUBLIC ACCOUNTS

Issue: What is reported in the 2015-16 Public Accounts and consolidated Financial Statements tabled on October 6, 2016?

KEY MESSAGES:

- The Public Accounts provide a financial update, including comparison of the Province's audited results against the 2015 Budget plan.
- The Report shows Ontario's deficit for 2015-16 is $5.0 billion. This result is $3.5 billion lower than planned in the 2015 Budget and $0.7 billion lower than the 2016 Budget interim projection.
- In preparing the 2015–16 Public Accounts, a decision was made to use regulation to reflect a change in the government's accounting policy for pension assets, which adjusted the Province's accumulated deficit by $10.7 billion and increased the annual deficit by $1.5 billion.
- The legislated accounting change impacts the 2015-16 results only and results in the same accounting treatment for pension assets as at year end consistent with the Auditor General's proposed accounting treatment.
- The comparative results for 2014–15 have not been restated in the Public Accounts which preserves the long-term comparability of year-over-year financial results and balances.
- Not restating the 2014-15 results complies with the regulation which reflects the Province's position that the adjustment is not a correction. The Auditor General was aware that the regulation was limited to the 2015-16 results only.
- While the AG's opinion states that the Province's reported results for 2015 are fairly stated in all material regards, it is qualified because the Province

did not restate the prior year's comparative results for 2014-15 to reflect the same accounting treatment for pensions as applied in accordance with legislation for 2015-16. Restating the prior year's results would not have been consistent with the regulation, and would have only been possible if government agreed with the AG's position on the application of PSAB standards to pension assets.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, and to remain balanced in 2018-19.

- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use, and are part of Ontario's commitment to Open Government.

- The government will continue to build on its track record of responsible fiscal management.

IF ASKED ABOUT THE EXPERT PANEL:

- In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

- As a result of these conversations, the government committed to forming an independent expert panel to deliver advice and recommendations on this issue.

- Ontario has appointed four members to the Pension Asset Expert Advisory Panel. This short-term advisory body, chaired by Tricia O'Malley, has been appointed by the President of the Treasury Board, and comprises experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards (PSAS).

- The independent panel will look at the application of public sector accounting standards to Ontario's net pension assets. Panel members will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The panel's report is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.

BACKGROUND:

Recent Background

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The members of the Panel are comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

The following four members have been appointed to the Panel:

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Murray Gold
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Revenue Highlights

Against 2015 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $4.0 billion or 3.2 per cent higher-than-forecast in the 2015 Budget. This was largely due to higher than projected taxation revenues and net revenues arising from the completion of the first phase of broadening Hydro One ownership. Government of Canada transfers were close to the 2015 Budget plan.

Against the Interim Estimates in the 2016 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $1.8 billion or 1.4 per cent higher-than-interim forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues; net revenues arising from the completion of the first phase of broadening Hydro One ownership; and slightly higher revenue from other sources. Government of Canada transfers were close to the 2016 Budget interim forecast.

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Net Debt

- Net debt as of March 31, 2016, was $305.2 billion, $6.3 billion higher than forecast in the 2015 Budget. Excluding the impact of the pension related adjustment, net debt was $4.3 billion lower than forecast in the 2015 Budget. Net debt grew by $20.6 billion during the year, representing a $21.6 billion increase in liabilities that was partially offset by a $1.0 billion increase in financial assets.

Trillium Trust

- Volume 1 of the Public Accounts includes disclosures related to amounts allocated to the Trillium Trust account which totalled $1.35 billion as at March 31, 2016 (reflecting the allocation of gains from the sale of GM shares which occurred prior to 2015/16).

- A footnote in Volume 1 also provides disclosure reflecting that in August 2016, the Province filed a regulation crediting an additional $3.2 billion to the Trillium Trust related to the sale of Hydro One common shares which occurred in 2015–16.

- Additional net revenue gains will be credited to the Trust from the secondary offering of Hydro One shares in April, 2016.

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- The Statement of Responsibility in the 2015-16 FSD&A includes discussion of the basis of reporting used to prepare the Province's consolidated financial statements which is in accordance with legislation and public sector accounting standards developed by the Public Sector Accounting Board (PSAB) of CPA Canada. The accompanying variance analysis clearly refers to the legislated accounting change and its impact on the annual deficit and financial position.

- Note 18 to the consolidated financial statements discloses the Auditor General's position with regards to recognition of the pension asset on the Province's books.

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Prepared by: Bharat Patel, Manager (A) External Reporting
Date Prepared: October 5, 2016
Reviewed by: Nadine Petsche, Director, Accounting Policy and Financial Reporting
Reviewed by: Emilie Smith, TBS Communications Branch
Jason Wesley, TBS Communications Branch
Approved by: Cindy Veinot, ADM, Office of the Provincial Controller

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1 - Public Accounts- November 10 2016.doc

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2 - Email - February 3 2017 - RE_ House Book Note for Panel.pdf

From: Tam, Nelson (TBS)
To: Petsche, Nadine (TBS)
Subject: RE: House Book Note for Panel
Date: February-03-17 9:07:00 AM
Attachments: Public Accounts- November 10 2016 Updated V1.doc

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Nadine

Attached is the updated House Note with track changes. I simplified the Panel's conclusion to basically say asset should be recognized without valuation allowance. I didn't want it to be too technical.

Thanks

Nelson
X20514

From: Petsche, Nadine (TBS)
Sent: February-02-17 9:24 PM
To: Tam, Nelson (TBS)
Subject: RE: House Book Note for Panel

Hi Nelson.
Just following up on this item. You were going to review and edit the document first? n

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- The panel's report final report was completed at the end of January and shared with the Auditor General of Ontario. Also, the Panel met the Auditor General on February 3rd to discuss the panel's recommendations. ~~is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.~~

- The Panel's report reflects a thorough examination of the facts related to both the OTPP and the OPSEUPP, and the application of PSAB in relation to jointly sponsored pension plans. The Panel concluded that the jointly controlled assets of both the OTPP and the OPSEUPP should be reported. In particular, the Panel agreed that both plans are joint defined benefit plans, the net pension asset should be recognized in the financial statements of the Province and no valuation allowance is required.

- The Panel will issue a supplemental report on how pension assets should be recognized and measured in the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAAT).

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2 - Public Accounts- November 10 2016 Updated V1.doc

Confidential **November 10, 2016**

2015-16 PUBLIC ACCOUNTS

Issue: What is reported in the 2015-16 Public Accounts and consolidated Financial Statements tabled on October 6, 2016?

KEY MESSAGES:

- The Public Accounts provide a financial update, including comparison of the Province's audited results against the 2015 Budget plan.

- The Report shows Ontario's deficit for 2015-16 is $5.0 billion. This result is $3.5 billion lower than planned in the 2015 Budget and $0.7 billion lower than the 2016 Budget interim projection.

- In preparing the 2015–16 Public Accounts, a decision was made to use regulation to reflect a change in the government's accounting policy for pension assets, which adjusted the Province's accumulated deficit by $10.7 billion and increased the annual deficit by $1.5 billion.

- The legislated accounting change impacts the 2015-16 results only and results in the same accounting treatment for pension assets as at year end consistent with the Auditor General's proposed accounting treatment.

- The comparative results for 2014–15 have not been restated in the Public Accounts which preserves the long-term comparability of year-over-year financial results and balances.

- Not restating the 2014-15 results complies with the regulation which reflects the Province's position that the adjustment is not a correction. The Auditor General was aware that the regulation was limited to the 2015-16 results only.

- While the AG's opinion states that the Province's reported results for 2015 are fairly stated in all material regards, it is qualified because the Province

did not restate the prior year's comparative results for 2014-15 to reflect the same accounting treatment for pensions as applied in accordance with legislation for 2015-16. Restating the prior year's results would not have been consistent with the regulation, and would have only been possible if government agreed with the AG's position on the application of PSAB standards to pension assets.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, and to remain balanced in 2018-19.

- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use, and are part of Ontario's commitment to Open Government.

- The government will continue to build on its track record of responsible fiscal management.

IF ASKED ABOUT THE EXPERT PANEL:

- In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

- As a result of these conversations, the government appointed four members to the Pension Asset Expert Advisory Panel which comprised experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards (PSAS). ~~committed to forming an independent expert panel to deliver advice and recommendations on this issue.~~

- ~~Ontario has appointed four members to the Pension Asset Expert Advisory Panel. This short-term advisory body, chaired by Tricia O'Malley, has been appointed by the President of the Treasury Board, and comprises experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards (PSAS).~~

- The independent panel ~~will look at~~ reviewed the application of public sector accounting standards to Ontario's net pension assets. Panel members ~~will also~~ provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The panel's report final report was completed at the end of January and shared with the Auditor General of Ontario. Also, the Panel met the Auditor General on February 3rd to discuss the panel's recommendations. ~~is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.~~

- The Panel's report reflects a thorough examination of the facts related to both the OTPP and the OPSEUPP, and the application of PSAB in relation to jointly sponsored pension plans. The Panel concluded that the jointly controlled assets of both the OTPP and the OPSEUPP should be reported. In particular, the Panel agreed that both plans are joint defined benefit plans, the net pension asset should be recognized in the financial statements of the Province and no valuation allowance is required.

- The Panel will issue a supplemental report on how pension assets should be recognized and measured in the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAAT).

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BACKGROUND:

Recent Background

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The members of the Panel are comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

The following four members have been appointed to the Panel:
- Tricia O'Malley (Chair)
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Revenue Highlights

Against 2015 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $4.0 billion or 3.2 per cent higher-than-forecast in the 2015 Budget. This was largely due to higher than projected taxation revenues and net revenues arising from the completion of the first phase of broadening Hydro One ownership. Government of Canada transfers were close to the 2015 Budget plan.

Against the Interim Estimates in the 2016 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $1.8 billion or 1.4 per cent higher-than-interim forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues; net revenues arising from the completion of the first phase of broadening Hydro One ownership; and slightly higher revenue from other sources. Government of Canada transfers were close to the 2016 Budget interim forecast.

Expense Highlights

Against the 2015 Budget plan:

- Total expense in 2015-16 was $133.4 billion, which was $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from planned spending of $120.5 billion largely due to higher than planned spending in the health, community and social services, and justice sectors, as well as a $1.5 billion increase in pension expense as a result of accounting policy change in pension assets. Interest on debt was $11.0 billion, lower by $0.4 billion from planned interest expense of $11.4 billion in the Budget plan.

Against the interim Estimates in the 2016 Budget:

- Total expense in 2015-16 was $133.4 billion or $1.3 billion higher than interim forecast in the 2016 Budget. Program spending was $122.4 billion or $1.5 billion higher than the interim forecast in the 2016 Budget, primarily due to a $1.5 billion pension related adjustment. Interest on debt was $11.0 billion, lower by $0.2 billion from interim forecast of $11.2 billion in 2016 Budget.

<u>Net Debt</u>

- Net debt as of March 31, 2016, was $305.2 billion, $6.3 billion higher than forecast in the 2015 Budget. Excluding the impact of the pension related adjustment, net debt was $4.3 billion lower than forecast in the 2015 Budget. Net debt grew by $20.6 billion during the year, representing a $21.6 billion increase in liabilities that was partially offset by a $1.0 billion increase in financial assets.

<u>Trillium Trust</u>

- Volume 1 of the Public Accounts includes disclosures related to amounts allocated to the Trillium Trust account which totalled $1.35 billion as at March 31, 2016 (reflecting the allocation of gains from the sale of GM shares which occurred prior to 2015/16).

- A footnote in Volume 1 also provides disclosure reflecting that in August 2016, the Province filed a regulation crediting an additional $3.2 billion to the Trillium Trust related to the sale of Hydro One common shares which occurred in 2015–16.

- Additional net revenue gains will be credited to the Trust from the secondary offering of Hydro One shares in April, 2016.

- The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17.

<u>Transparency and Accountability</u>

- The Statement of Responsibility in the 2015-16 FSD&A includes discussion of the basis of reporting used to prepare the Province's consolidated financial statements which is in accordance with legislation and public sector accounting standards developed by the Public Sector Accounting Board (PSAB) of CPA Canada. The accompanying variance analysis clearly refers to the legislated accounting change and its impact on the annual deficit and financial position.

- Note 18 to the consolidated financial statements discloses the Auditor General's position with regards to recognition of the pension asset on the Province's books.

Timelines of Tabling

- In accordance with the FAA, the Public Accounts, including the Auditor General's opinion, is required to be tabled within 180 days after the fiscal year end which fell on September 27, 2016.
- The Auditor General's opinion was received on October 5th to enable tabling of the Public Accounts with the LGIC to occur October 5th.

Prepared by: Bharat Patel, Manager (A) External Reporting
Date Prepared: October 5, 2016
Reviewed by: Nadine Petsche, Director, Accounting Policy and Financial Reporting
Reviewed by: Emilie Smith, TBS Communications Branch
Jason Wesley, TBS Communications Branch
Approved by: Cindy Veinot, ADM, Office of the Provincial Controller

Appendix

Preparation and Tabling of the Public Accounts:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Public Accounts and 3 supplementary volumes. The Public Accounts include the Province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.
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3 - Email - February 6 2017 - RE_ Public Accounts- November 10 2016 Updated V1.doc.pdf

From: Hosick, Sarah (TBS)
To: Petsche, Nadine (TBS)
Cc: Tam, Nelson (TBS)
Subject: RE: Public Accounts- November 10 2016 Updated V1.doc
Date: February-06-17 10:15:26 AM

Thank you – will let you know if any additional edits needed.

From: Petsche, Nadine (TBS)
Sent: February-06-17 9:11 AM
To: Hosick, Sarah (TBS)
Cc: Tam, Nelson (TBS)
Subject: Public Accounts- November 10 2016 Updated V1.doc

Sarah,
Please find attached the updated housenote reflecting edits related to the panel's final conclusions.
Nadine

3 - Public Accounts- November 10 2016 Updated V1.doc

Confidential **November 10, 2016**

Updated: February 2, 2017

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Prepared by: Bharat Patel, Manager (A) External Reporting
Date Prepared: October 5, 2016
Updated: February 3, 2017
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Reviewed by: Emilie Smith, TBS Communications Branch
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