2015-16 Pension Asset Technical Briefing_Final.ppt

Ontario

2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province’s financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has said that she cannot provide her audit opinion on these financial statements, that were submitted to her on September 29.
- An audit opinion is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General’s audit report, the unaudited Report is being released to support transparency and accountability.

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year’s results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province’s capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.

Ontario

Summary 2015-16 Results

2015-16 Actual Results*

$ Billions	2015-16 Budget	2015-16 Actual	2014-15 Actual	Change from Budget	% Change
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4**	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt		**(305.2)**	(284.6)		
Accumulated Deficit		**(202.7)**	(187.5)		

*unaudited

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Ontario

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee’s Union Pension Plan (OPSEUPP) and Ontario Teachers’ Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario’s accounting practices, based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, professional staff and the Auditor General continue to have differences of opinion on how the pension assets for these plans should be accounted for under PSAB.

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since they were last revised in 2001.
- Under PSAB, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Ontario

Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG communicated a view in writing on September 13 that:
  - The government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
  - Agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
  - The Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

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Province's Position

- Based on professional staff's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value, which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- Professional staff do not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

Timeline

Jan. - March
Audit Planning

April – June
Prepare statements and conduct audit enquiries

July - September
Finalize audit & production

Jan./Feb.

- Public Accounts planning discussions with the OAGO

February

- Draft Audit Planning Report provided by the OAGO
- No reference to pension asset matters, only economic assumptions

Wk. ending June 10

- OAGO first ask questions about pension asset matters

Wk. ending June 17

- OAGO advises that an 'actuarial assessment' is needed
- TBS initiates competitive procurement process to engage actuary

Wk. ending June 30

- Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets

July 21 – Aug. 19

- TBS selects and engages external actuary to perform analysis
- Actuary works with OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
- Draft reports discussed with TBS, finalized and provided to OAGO
- Conclusions support status quo (no valuation adjustment required)

September 1

- TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo

September 13

- AG advises TBS and MOF in writing that asset value to be reported on Province's books should be 'nil'.

September 14 – 30

- TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16

September 27

- Minister notifies the House of a delay in tabling Public Accounts past the Sep. 27 deadline

September 29

- Financial statements submitted to OAGO; AG says she cannot issue audit opinion

Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
- The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year ($1.5 billion) has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

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Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (value of OTPP and OPSEUPP pension assets in 2014-15 audited statements)
  - Increase in annual pension expense by $1.5 billion, which increases the annual deficit by the same amount
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

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Impact of Regulated Accounting on 2015-16 Annual Report

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

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In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB’s pension accounting standards to Ontario’s jointly sponsored pension plans and will conduct a valuation review of the pension assets.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

Ontario

Questions

2016-17 Public Accounts Technical Briefing_Final.pptx

Ontario

2016-17 Public Accounts

Technical Briefing

September 7, 2017

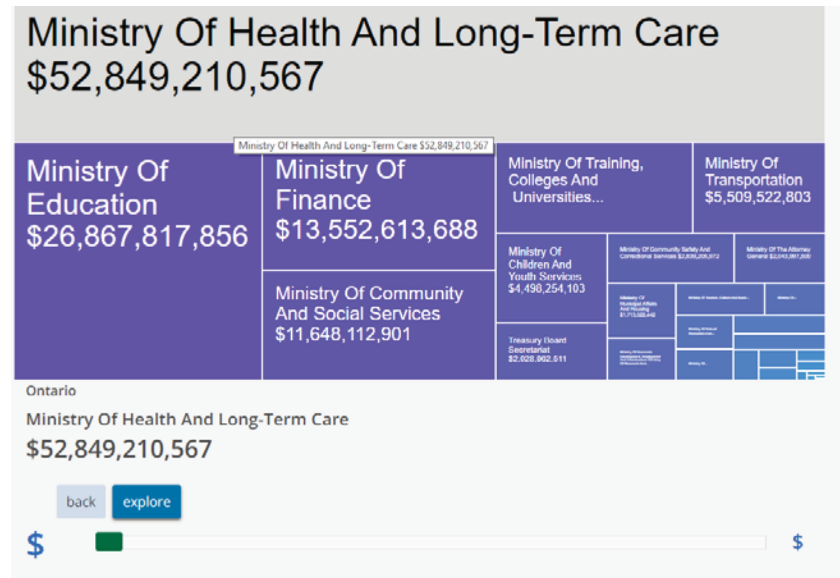
Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



Ontario

2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included

$56B Health

$26.6B Education

$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Summary 2016-17 Results

2016-17 Actual Results					
$ Billions	2016-17 Budget[1]	2016-17 Actual	2015-16 Actual [1 2]	Change from Budget	% Change
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
  - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Ontario

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
  d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province’s deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province’s professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator’s accounting for the “market accounts”.

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Ontario

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Ontario

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O’Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB’s Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB’s Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Ontario

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TBS

OFFICE OF THE PROVINCIAL CONTROLLER DIVISION

2016-17 Public Accounts

Cabinet Highlights Deck

August 31, 2017

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2016-17 Financial Highlights

TBS

- **2016-17 deficit is $1.0 billion**
  - $3.3 billion lower than the projected $4.3 billion deficit in the 2016 Budget.
  - $0.5 billion lower than the $1.5 billion interim forecast presented in the 2017 Budget.
  - $2.5 billion lower than 2015-16 deficit of $3.5 billion*.
- **Revenues are $140.7 billion****
  - $2.2 billion, or 1.6%, higher than the projected $138.5 billion in the 2016 Budget.
  - $0.6 billion, or 0.4%, lower than the projected $141.3 billion interim forecast in the 2017 Budget.
- **Expenses are $141.7 billion****
  - $0.1 billion, or 0.1%, lower than the projected $141.8 billion in the 2016 Budget.
  - $1.1 billion, or 0.8%, lower than the $142.8 billion interim forecast presented in the 2017 Budget.
- **Net debt is $301.6 billion, an increase of $6.2 billion in 2016-17. This increase is due to:**
  - Additional borrowing to finance the operating deficit and investments in infrastructure.
- **The Auditor General has issued a qualified Audit Opinion for the 2016-17 Public Accounts, based on a different interpretation of accounting methods for net pension assets and recognition of Independent Electricity System Operator market accounts.**

* 2015-16 deficit restated for removal of impact of regulated pension accounting

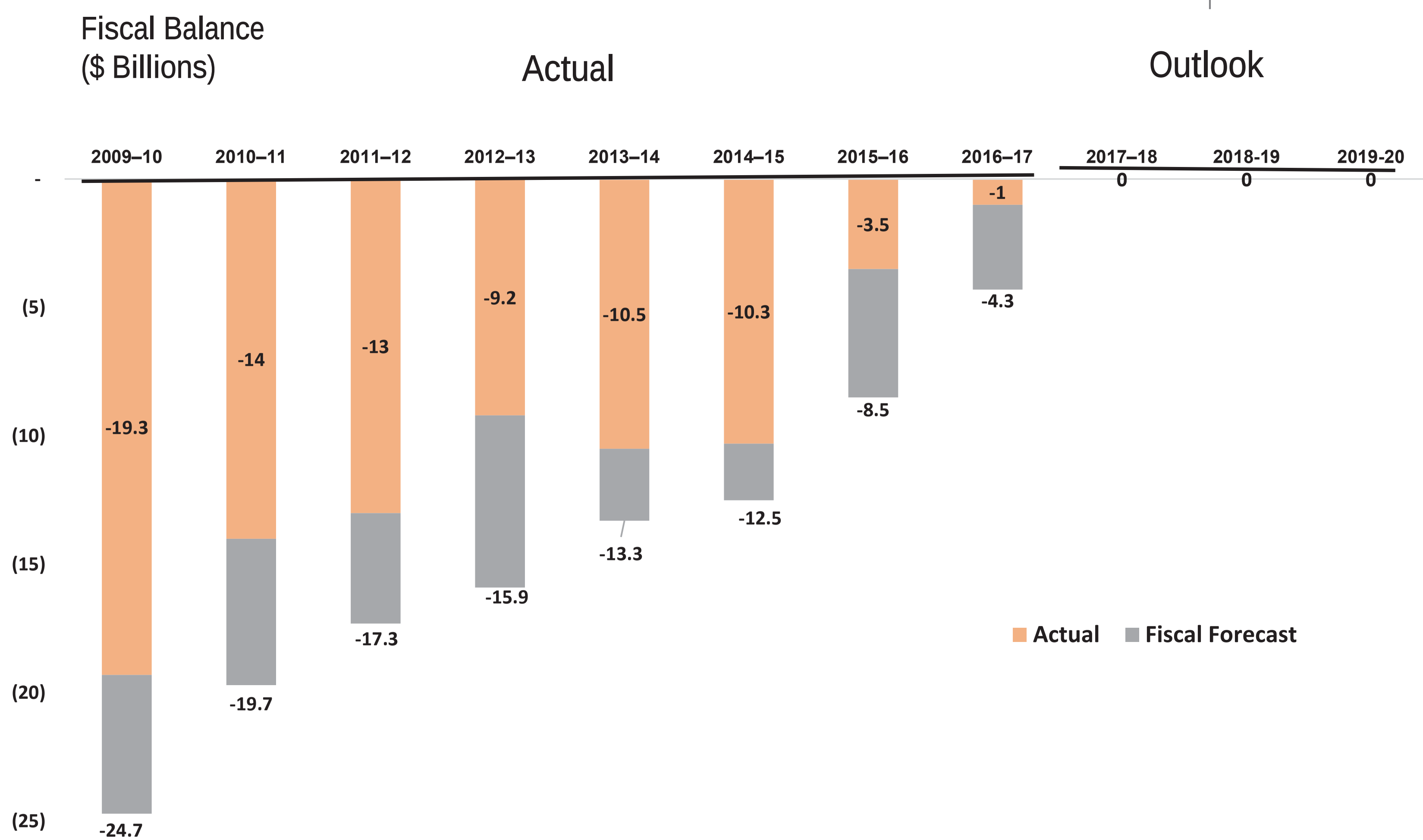
** Revenues for 2016-17 include third party revenues of hospitals, school boards and colleges. In previous years, these third party revenues were netted against the respective sector expenses. This change in presentation increased revenue and expenses by approximately $8 billion in 2016-17 and $7.5 billion in 2015-16. This change has no impact on the annual deficit. The prior year financial information and the 2016 Budget have been reclassified to reflect this change.

Auditor General Opinion

TBS

- Two qualifications in the audit opinion
  - Pension assets ($12.4 billion increase to net debt and accumulated deficit; $1.4 billion increase to deficit →$2.4 billion deficit per AG)
    - Pension Panel identified as a “non-authoritative” source on application of Public Sector Accounting Standards (PSAS)
  - Independent Electricity Systems Operator (IESO) changed its accounting policy to recognize $1.6 billion market accounts assets and the same amount in liabilities (market accounts track mainly buy and sell transactions between electricity power generators and distributors)
    - No impact to annual deficit, net debt or accumulated deficit
  - Other matters paragraphs in opinion
    - Rate-regulated accounting used by IESO in year not permitted under PSAS (used by IESO in year, but impact not material)
    - Future potential material misstatement resulting from “legislated accounting” in Fair Hydro Plan legislation and related regulations;
    - FSD&A does not reflect pension accounting or market accounts appropriately

Ontario’s Plan to Eliminate Deficit



[1] Represents the 2017 Budget outlook for 2017–18 to 2019–20. For 2009–10 to 2016–17, actual results are presented. The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees’ Union Pension Plan and the Ontario Teachers’ Pension Plan on the Province’s financial statements, consistent with the 2016 Budget and as described in the 2016–17 Third Quarter Finances.

[2] Forecast for 2009–10 is based on the 2009 Ontario Economic Outlook and Fiscal Review, 2010–11 to 2013–14 is based on the 2010 Budget; 2014–15 is based on the 2014 Budget; 2015–16 is based on the 2015 Budget.

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Highlights: Financial Results

TBS

2016-17 Results (as of August 25)

$ Billions	Budget	Interim	2016-17 Results	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues	138.5	141.3	**140.7**	136.1	2.2	1.6%	(0.6)	-0.4%
Expenses								
Programs	129.4	130.9	**130.0**	128.1	0.6	0.5%	(0.9)	-0.7%
Interest on Debt	12.4	11.9	**11.7**	11.6	(0.7)	-5.6%	(0.2)	-1.7%
Total Expenses	141.8	142.8	**141.7**	139.7	(0.1)	-0.1%	(1.1)	-0.8%
Reserve	1.0	-	**-**	-	(1.0)		-	
Deficit Before Outstanding Items	(4.3)	(1.5)	**(1.0)**	(3.5)	3.3	-76.7%	0.5	-33.3%

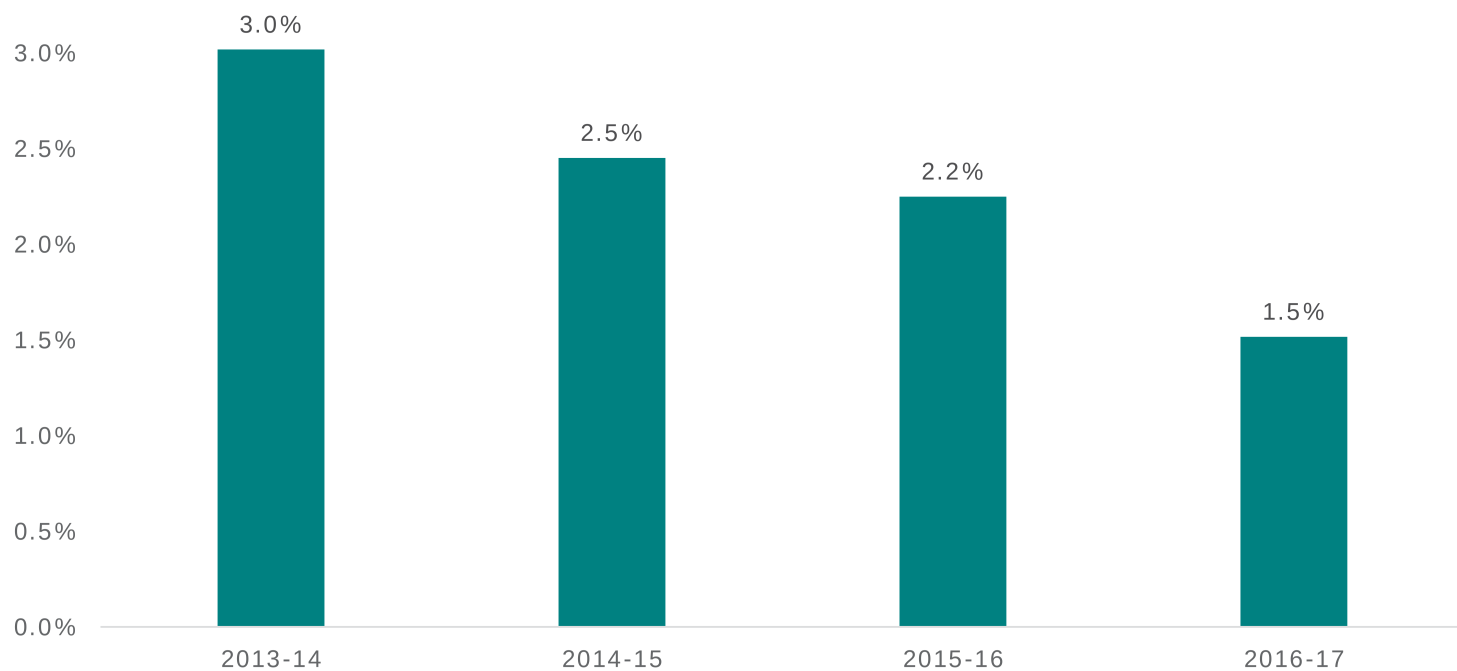
Notes:

(1) For discussion purposes only. Subject to change pending public release.

(2) Budget and Interim numbers are re-stated for BPS line by line reporting (no fiscal impact). 2015-16 Actual have been restated for the reversal of regulated accounting for pensions (published 2015-16 deficit was $5.0 billion).

(3) Budget/Interim numbers may not add due to rounding.

Annual Program Expense Growth Rate: 2013-14 to 2016-17



Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Communications

TBS

Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is $1 billion**. This result is **$3.3 billion lower** than the $4.3 billion projected in the 2016 Budget. It is **$0.5 billion lower** than the interim projection in the 2017 Budget of $1.5 billion.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.
- 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. This is part of Ontario's commitment to Open Government.
- The government will continue to build on its track record of responsible fiscal management.

Strategy

- **Medium profile, proactive, short term** communications approach via traditional, digital and social media.
- Remain **neutral** and **factual**, balancing need for gov't to clearly state its position, while demonstrating respect for all parties involved.
- **Promote** strong financial management, and transparency and accountability.
- **Leverage open data** and other digital components to **profile achievement of 2016 budget commitments.**
- Mitigate potential issues with strong issues management plan.

Communications cont'd

TBS

Rollout

- Public release currently tracking for **September 7** via joint TBS and MOF **press conference** and **province-wide news release** with backgrounder.
  - OPTION: **Technical briefing for media and opposition** in advance to present Ontario's position on accounting for pension assets and IESO in a factual, neutral manner.
- Tactics and messaging will be **reassessed**, as needed, to respond to **AG's position.**

Considerations

- Public Accounts specific:
  - AG's qualified audit opinion (pension asset accounting, IESO accounting treatment of market accounts)
  - AG's criticisms regarding the use of rate-regulated accounting by IESO
  - BPS presentation change
  - Trillium Trust drawdowns
- Other:
  - Questioning balanced budget narrative
  - Growing debt burden
  - Relationship with AG and her criticism of the Fair Hydro Plan
- TBS will focus on the issues specific to Public Accounts, and work in tandem with MOF and Energy to ensure peripheral issues, such as Trillium Trust and Fair Hydro Plan, are positioned accordingly.

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APPENDIX

Revenues – 2016-17 Interim vs. Actual

TBS

2016-17 Results (as of August 25)

$ Millions	Budget	Interim	2016-17 Actual	2015-16 Actual	Change from Budget	%	Change from Interim	%
Revenues								
Tax Revenue	91,819	95,063	**94,346**	91,818	2,527	2.8%	(717)	-0.8%
Transfers from Government of Canada	25,138	24,819	**24,544**	23,141	(594)	-2.4%	(275)	-1.1%
Income from Government Business Enterprise	5,027	5,297	**5,567**	4,909	540	10.7%	270	5.1%
Fees, Donations and Other Revenue from Hospitals, School Boards and Colleges	7,404	7,683	**7,957**	7,493	553	7.5%	274	3.6%
Other Revenue	9,094	8,468	**8,320**	8,787	(774)	-8.5%	(148)	-1.7%
Total Revenue	138,482	141,330	**140,734**	136,148	2,252	1.6%	(596)	-0.4%

Consolidated Expense By Ministry
Interim vs. Actual ($M)

TBS

	Budget	2016-17 Interim	2016-17 Results	Budget Variance	Budget % Change	Interim Variance	Interim % Change
Aboriginal Affairs	77	99	128	51	66.2%	29	29.3%
Agriculture, Food and Rural Affairs	916	1,074	1,031	115	12.6%	(43)	-4.0%
Attorney General	1,868	1,942	1,937	69	3.7%	(5)	-0.3%
Board of Internal Economy	220	226	219	(1)	-0.5%	(7)	-3.1%
Children and Youth Services	4,346	4,392	4,379	33	0.8%	(13)	-0.3%
Citizenship, Immigration and International Trade	221	179	176	(45)	-20.4%	(3)	-1.7%
Community and Social Services	11,470	11,710	11,627	157	1.4%	(83)	-0.7%
Community Safety and Correctional Services	2,648	2,689	2,681	33	1.2%	(8)	-0.3%
Economic Development, Employment and Infrastructure/Research and Innovation	1,796	1,395	1,234	(562)	-31.3%	(161)	-11.5%
Education	26,545	26,726	26,581	36	0.1%	(145)	-0.5%
Teachers' Pension	(452)	(502)	(377)	75	-16.6%	125	-24.9%
Energy	393	926	920	527	134.1%	(6)	-0.6%
Environment and Climate Change	531	531	523	(8)	-1.5%	(8)	-1.5%
Executive Offices	44	49	47	3	6.8%	(2)	-4.1%
Finance	966	899	841	(125)	-12.9%	(58)	-6.5%
Interest on Debt	12,412	11,908	11,709	(703)	-5.7%	(199)	-1.7%
Municipal Partnership Fund	505	505	526	21	4.2%	21	4.2%
Power Supply Contract Costs	643	739	838	195	30.3%	99	13.4%
Government and Consumer Services	607	617	600	(7)	-1.2%	(17)	-2.8%
Health and Long-Term Care	55,786	56,345	56,025	239	0.4%	(320)	-0.6%
Labour	309	310	308	(1)	-0.3%	(2)	-0.6%
Municipal Affairs and Housing	1,060	1,541	1,544	484	45.7%	3	0.2%
Natural Resources and Forestry	819	862	859	40	4.9%	(3)	-0.3%
Northern Development and Mines	791	837	814	23	2.9%	(23)	-2.7%
Office of Francophone Affairs	6	5	5	(1)	-16.7%	-	0.0%
Tourism, Culture and Sport	1,339	1,537	1,540	201	15.0%	3	0.2%
Training, Colleges and Universities	10,198	10,182	10,131	(67)	-0.7%	(51)	-0.5%
Transportation	3,850	3,688	3,637	(213)	-5.5%	(51)	-1.4%
Treasury Board Secretariat	322	251	240	(82)	-25.5%	(11)	-4.4%
Contingency Fund	1,200	30	-	(1,200)	-100.0%	(30)	-100.0%
Employee and Pensioner Benefits	1,152	1,163	1,002	(150)	-13.0%	(161)	-13.8%
Year End Savings	(800)			800	-100.0%		
Total Expense	**141,788**	**142,855**	**141,725**	**(63)**	**0.1%**	**(1,130)**	**-0.8%**

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Pension Panel - Signed Submission_October 2016.pdf

TBS

Office of the Provincial Controller Division

Pension Asset Expert Advisory Panel Report back to TB/MBC

October 21, 2016 - FINAL

President of the Treasury Board

Deputy Minister, Treasury Board Secretariat

TBS

Table of Contents

Request

Treasury Board Secretariat is requesting that:

1. Treasury Board / Management Board of Cabinet (TB/MBC) approve the establishment of the Pension Asset Expert Advisory Panel by Minister's Order, and

2. TB/MBC recommend to the Lieutenant Governor in Council a remuneration Order in Council for panel members.

Purpose of the Request

On October 5, 2016 Treasury Board/Management Board of Cabinet (TB/MBC) approved the draft Terms of Reference for the Pension Asset Expert Advisory Panel to review the application of the Public Sector Accounting Standards (PSAS) to accounting for pension assets, and to provide advice to government. Treasury Board Secretariat is reporting back with the Minister's Order that would establish the panel, and the remuneration Order in Council that would set the rates of remuneration to be paid to panel members.

This report back will complete the requirements under the Agencies and Appointments Directive (the Directive) for the establishment of short-term advisory bodies.

Business Case Rationale / Background

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

The government made a time-limited regulation under the Financial Administration Act (FAA) to require the accounting for these pension assets to align with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

It is intended that the Expert Advisory Panel will commence its review immediately on appointment of its members. Creation of the panel is to be achieved by a Minister's Order, made by the President of the Treasury Board, pursuant to Section 6.1 of the *Ministry of Government Services Act*. The Minister's Order will set the termination date for the Panel's activities as March 31, 2017, enable the Minister to appoint a minimum of 3 and a maximum of 6 panel members and to designate one member as the chair, enable the Minister to approve the Terms of Reference (as previously provided in draft to Treasury Board/Management Board of Cabinet), and require the Minister to seek LGIC approval for rates of remuneration.

The panel will be supported primarily by staff in Treasury Board Secretariat, and all expenses related to the panel will be managed from within TBS' allocation.

With the appointment of the panel members, and the establishment of the Terms of Reference, a report to the President of the Treasury Board, which will be shared with the Auditor General of Ontario and subsequently made public, will be due from the panel by December 31, 2016. Follow up work such as supporting questions on the report, providing supplemental information, assessing feedback and providing recommendations to standard developers may occur between January 1, 2017 and March 31, 2017

Remuneration for panel members must take into consideration the following factors:

1. This assignment is urgent to support the government's 2017-18 planning cycle and 2017 Budget as the issue of pension asset accounting is complex, technical and has significant immediate and long term financial implications to the government. This creates a high degree of pressure on the panel to thoroughly assess and provide advice on this item in a short period of time.

2. The Province and the Ontario Auditor General are in public disagreement on this issue. The release of the results of the Expert Advisory Panel will likely receive significant public and media scrutiny and place the professional reputations of panel members in the media. The level of expertise required and the professional risk to the panel members need to be considered in setting compensation.

3. The topics being assessed in particular with respect to the accounting are based on principle based standards which contain ambiguity. Panel members are being selected based on their professional reputations, as there is no clearly articulated guidance in the accounting standards related to pension assets for jointly sponsored pension plans, so professional judgement is required.

4. Pension accounting, actuarial modelling to value pension plan assets and pension plan governance are very specialized areas within legal, actuarial and accounting professions. Panel members will be expected to provide personal in-depth analysis and advice, in combination with any procured services.

Performance Measurement

Submission of final report by December 31, 2016 and within approved budget.

Financial Implications

The proposed remuneration is $2,000 per day for the Chair and $1,900 per day for the other members. These rates are consistent with the Directive, which specifies up to $2000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time. The total maximum budget is estimated at $978.5K, which is comprised of:

Proposed Budget

	#people	Per diem	# Days	Total Cost
Chair	1	2,000	75	$150,000
Members	3	1,900	50	285,000
				435,000
Travel Budget @10%				43,500
Procurement costs (incl. translation)				500,000
Total Budget for the Panel				$978,500

Other experts sitting on Provincial Advisory Panels have been remunerated at similar rates including the short-term Expert Investment Advisory committee on issues related to Hydro One, established in 2015 compensated all committee members at $2,000 per diem.

The chair of the Commission on the Reform of Ontario's Public Services was compensated at $1500 per diem for a long term lower risk report than this advisory panel.

Other comparable examples could include individual advisors appointed for remuneration at rates equal or above $2000/diem such as the Negotiations Advisor for the Physician Services Agreement with the Ontario Medical Association (OMA) at a rate of $2175 per diem, a special advisor on Income Security Reform for the Ministry of Community and Social Services, at $2000 per diem, and the Advisor on Auto Insurance and Pensions at a rate of $1975 per diem.

This Expert Advisory Panel consists of members that each will bring a unique skillset and perspective needed to complete the advice to the government, contributing personal effort and professional expertise, such as typical with individual appointments, making the panel similar to individual advisors. The chair received a slightly higher per diem $2000 versus $1900, as this person will likely have interaction with the media and must become fluent is all the aspects that support the overall public report even though it combines multiple professional disciplines.

Within a budget approved by Treasury Board Secretariat, the Expert Advisory Panel may receive advice from such counsel, staff, or expertise considered necessary in the performance of its duties at reasonable remuneration approved by Treasury Board Secretariat. Panel Members shall be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

Any under-expenditure on per diem costs may be reallocated to procurement costs in the approved budget.

The panel's main deliverable is for December 31, 2016 however the panel will continue until March 31, 2017. The budget recognizes that some of the work of the panel may still occur after December 31, 2016 and is included in the maximum budget as well as supports a possible extension in the report deliverable date.

TBS will follow Treasury Board/Management Board of Cabinet Directives and Guidelines and other applicable government policies in obtaining other services and goods for the Expert Advisory Panel considered necessary in the performance of their duties within the approved budget.

Proposed appointees will be identified from areas/ skill sets such as, but not limited to:

Pension law
Public accounting/standard setting
Government

Academia
Pension administration

Appointees will be assessed and members selected such that the panel has the correct mix of skills to complete the assignment, and all due attention will be given to regional, linguistic and gender diversity.

Legislative and Regulatory Requirements

The remuneration for the panel will be set by OIC; no legislation or regulation changes are needed.

Risks and Mitigating Strategies

Proposed remuneration is consistent with that provided for other expert level advisory panels, which mitigates the risk of criticism for providing compensation at higher rates than are paid to OPS employees.

Stakeholder Engagement

Selection of panel members will be achieved through the Public Appointments Secretariat and appointments will be made by Minister's letter.

The Expert Advisory Panel will need to work with several potential stakeholders within and outside of government including different Ministries and divisions, the Office of the Auditor General, pension plans, standard setters, and other experts. TBS staff will support the panel in accessing and obtaining information from any of the necessary stakeholders as determined by the Expert Advisory Panel and within the approved budget.

Communications and Issues Management

A communication plan will be developed for the Expert Advisory Panel by TBS.

TBS will facilitate communication between the Expert Advisory Panel and the Office of the Auditor General, a key stakeholder in developing their report.

Treasury Board Secretariat will make the final report of the Expert Advisory Panel available to the public. In delivering the report to the Ministry, the Expert Advisory Panel shall ensure that the report is in a form appropriate for public release, consistent with the requirements of the Freedom of Information and Protection of Privacy Act and other applicable legislation. The Expert Advisory Panel shall also ensure that the report is delivered in both English and French at the same time, in electronic and printed versions in sufficient quantity for public release.

Recommendation

That Treasury Board/Management Board of Cabinet approve the request to establish the Pension Asset Expert Advisory Panel.

That Treasury Board/Management Board of Cabinet endorse the Ministers order establishing the Review and the terms of reference.

Proposed Minute

Further to the minute of October 6, 2016, the Ministry is requesting that TB/MBC

- Approve a revision to the completion date for the panel to March 31, 2017
- Approve the Minister's Order establishing the Panel
- Approve rates of remuneration of $2,000 per diem to a maximum of $150,000 for the Chair
- Approve the rate of remuneration for three members of $1,900 per diem to a maximum of $95,000 per member
- Recommend to the Lieutenant Governor in Council, the Order-in-Council for the remuneration of the Chair and the members in the amount of $2,000 per diem for the Chair and $1,900 per diem for the members
- Note that the Ministry will manage costs from within its existing allocation

Proposed Terms of Reference

Background

In connection with the preparation and audit of the 2015-16 Public Accounts, the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan. The government passed a time-limited regulation to align the accounting for these pension assets with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

The government released an annual report and unaudited financial statements on October 3, 2016, and concurrently announced that an advisory panel would be formed to review the application of PSAS to these pension assets.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to write off the pension assets.

Governance

An advisory panel is established as a short-term advisory body appointed by the President of the Treasury Board to review the application of the PSAS to accounting for pension assets and provide advice to government. The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario, and made public thereafter. The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the panel.[1]

Mandate

The Expert Advisory Panel's mandate is to deliver advice and recommendations to the government on the application of PSAS to the recognition and measurement of pension assets. The Expert Advisory Panel's advice and recommendations to the government will consider:

---

[1] The Public Sector Accounting Board established a task force to review the standards on pension plans. Should their review results in changes to the standards, these new standards would be applied by the Province.

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.
- The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in their review of the retirement and post-employment benefits standards.

Timelines

A report to the President of the Treasury Board and the Auditor General of Ontario is due by the end of 2016.

Membership

The membership of the Panel will comprise accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards. All members will be appointed by the President of the Treasury Board.

The identified members should attend/participate in the meetings; no substitutes or alternates should attend in place of a member.

Support

The Province will identify individuals to support the Panel and work collaboratively to provide information related to the pension plans sponsored by the Province of Ontario.

Funding

The Province will be responsible for the costs of the appointed members to attend the meetings. The costs of any individuals supporting the work of the Panel will also be borne by the Province.

Treasury Board Secretariat
Office of the President
99 Wellesley Street West
Room 4320, Whitney Block
Toronto, ON M7A 1W3
Tel.: 416-327-2333
Fax: 416-327-3790

Secrétariat du Conseil du Trésor
Bureau de la présidente
99, rue Wellesley Ouest
Édifice Whitney, bureau 4320
Toronto (Ontario) M7A 1W3
Tél. : 416 327-2333
Téléc. : 416 327-3790

Ontario

MINISTER'S ORDER

PURSUANT TO section 6.1 of the *Ministry of Government Services Act*,

Expert advisory panel established

1. The Pension Asset Expert Advisory Panel (the "Advisory Panel") is hereby established as a short-term advisory body, accountable to the President of the Treasury Board (the "Minister"), for a period not extending beyond March 31, 2017.

Terms of reference

2. The Minister shall determine the terms of reference of the Advisory Panel and may amend them from time to time.

Appointments

3. The Advisory Panel shall be comprised of up to ***4*** members appointed by the Minister, and the Minister may designate one member as the chair.

4. The members of the Advisory Panel, including the chair, shall serve at the Minister's pleasure for a period not extending beyond March 31, 2017.

Remuneration and expenses

5. The members of the Advisory Panel, including the chair, shall be paid such remuneration and expenses as the Lieutenant Governor in Council may determine.

Approved and
Ordered on ____________________

Liz Sandals

Liz Sandals
President of the Treasury Board

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit:

WHEREAS the President of the Treasury Board has established the Pension Asset Expert Advisory Panel (the "Advisory Panel") by Minister's Order made under section 6.1 of the *Ministry of Government Services Act*;

THEREFORE, PURSUANT TO subsection 6.1 (2) of the *Ministry of Government Services Act*,

Chair's remuneration

1. The Chair of the Advisory Panel shall be paid remuneration of ***$2,000*** per day, up to a maximum of ***75*** days, such that the maximum payable is ***$150,000***.

Other members' remuneration

2. The members of the Advisory Panel, other than the Chair, shall each be paid remuneration of ***$1,900*** per day, up to a maximum of ***50*** days, such that the maximum payable is ***$95,000*** per member.

Expenses

3. In addition to the remuneration set out above, the members of the Advisory Panel, including the Chair, shall be reimbursed for reasonable expenses incurred in carrying out their duties on the Advisory Panel in accordance with the Management Board of Cabinet's *Travel, Meal and Hospitality Expenses Directive*.

Authority Verified/Compétence vérifiée: ______________________________

Please print name/Nom en lettres moulées s.v.p.: Paul G. Korn

Telephone/Téléphone: 416-325-9395

Recommended by the Treasury Board/Management Board of Cabinet on:
Recommandé par le Conseil du Trésor / Conseil de gestion du gouvernement le: ______________

Secretary/Secrétaire: ______________________________

ATTENDU QUE la présidente du Conseil du Trésor a constitué le Comité consultatif d'experts en matière de comptabilisation des actifs des régimes de retraite (le « Comité consultatif ») par arrêté ministériel pris en vertu de l'article 6.1 de la *Loi sur le ministère des Services gouvernementaux*;

PAR CONSÉQUENT, EN APPLICATION DU paragraphe 6.1 (2) de la *Loi sur le ministère des Services gouvernementaux*,

Rémunération de la présidente ou du président

1. La présidente ou le président du Comité consultatif reçoit une rémunération de ***2 000 $*** par jour, jusqu'à concurrence de ***75*** jours, de sorte que le montant maximal payable est ***150 000 $***.

Rémunération des autres membres

2. Les membres du Comité consultatif, autres que la présidente ou le président, reçoivent chacun une rémunération de ***1 900 $*** par jour, jusqu'à concurrence de ***50*** jours, de sorte que le montant maximal payable à chaque membre est ***95 000 $***.

Indemnités

3. Outre la rémunération précisée ci-dessus, les membres du Comité consultatif, y compris la présidente ou le président, ont droit au remboursement des frais raisonnables engagés pour l'exercice de leurs fonctions au sein du Comité consultatif, conformément à la *Directive sur les frais de déplacement, de repas et d'accueil* du Conseil de gestion du gouvernement.

Recommended: President of the Treasury Board
Recommandé par: La présidente du Conseil du Trésor

Concurred: Chair of Cabinet
Appuyé par: Le président/la présidente du Conseil des ministres

Approved and Ordered:
Approuvé et décrété le:

Lieutenant Governor
La lieutenante-gouverneure

Signed Regulation_September 2016.pdf

Ontario

Executive Council
Conseil exécutif

R.O.C./Décret 220/2016

I certify that the attached is a true copy of the Regulation, made by the Treasury Board under the *Financial Administration Act*, approved by His Honour the Administrator of the Government of the Province of Ontario in Council, on September 28th, 2016.

Dated at Toronto, September 28, 2016.

Anna Valen

Deputy Clerk, Executive Council

Ontario

Executive Council
Conseil exécutif

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and concurrence of the Executive Council, orders that:

the appended Regulation, made by the Treasury Board under the *Financial Administration Act*, be approved.

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure, sur l'avis et avec le consentement du Conseil exécutif, décrète ce qui suit :

Le règlement ci-annexé, pris par le Conseil du Trésor en vertu de la *Loi sur l'administration financière*, est approuvé

Recommandé par : La Présidente du Conseil du Trésor,

Appuyé par : La présidente du Conseil des ministres,

Recommended ______________________
President of the Treasury Board

Concurred ______________________
Chair of Cabinet

Approuvé et décrété le

Approved and Ordered SEP 2 8 2016
Date

L'administrateur du gouvernement

____
Administrator of the Government

R.O.C./Décret (R) 220/2016

Bilingual

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Registrar of Regulations

REG2016.0435.e
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ONTARIO REGULATION

made under the

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.

CONFIDENTIEL
jusqu'au dépôt auprès du
registrateur des règlements

Reg2016.0435.f06.EDI
6-EC

RÈGLEMENT DE L'ONTARIO

pris en vertu de la

LOI SUR L'ADMINISTRATION FINANCIÈRE

modifiant le Règl. de l'Ont. 395/11

(CONVENTIONS ET MÉTHODES COMPTABLES)

1. Le Règlement de l'Ontario 395/11 est modifié par adjonction de l'article suivant :

Conventions et méthodes comptables

3. (1) Les états financiers consolidés qui figurent dans les comptes publics de l'exercice se terminant le 31 mars 2016 sont préparés conformément aux règles suivantes :

1. Lorsqu'elle établit une provision pour dépréciation à l'égard d'un régime de retraite conjoint qui affiche un excédent calculé aux fins comptables, la Province suppose un avantage futur escompté égal à zéro.

2. Il doit être tenu compte de la règle prévue à la disposition 1 dans tous les soldes connexes d'actif, de recettes, de passif, de dépenses et de déficit accumulé comme si elle avait été mise en application le 1er avril 2015.

(2) La définition qui suit s'applique au paragraphe (1).

«régime de retraite conjoint» S'entend au sens de la *Loi sur les régimes de retraite*.

Entrée en vigueur

2. Le présent règlement entre en vigueur le jour de son dépôt.

Made by:
Pris par :

TREASURY BOARD:
LE CONSEIL DU TRÉSOR :

Liz Sandals
Signature (in blue ink / à l'encre bleue)

Liz Sandals
Name (in print) / Nom (en lettres moulées)

President of the Treasury Board
Full Title in English and French (in print) /
Titre complet en anglais et en français (en lettres moulées)

Greg Orencsak
Signature (in blue ink / à l'encre bleue)

Greg Orencsak
Name (in print) / Nom (en lettres moulées)

Secretary, Treasury Board/Management Board of Cabinet
Full Title in English and French (in print) /
Titre complet en anglais et en français (en lettres moulées)

Date made:
Pris le : September 28, 2016

TBMBC Submission_September 2016_Final.pdf

TBS

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

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Liz Sandals

President of Treasury Board

Greg Orencsak

Deputy Minister of Treasury Board

Context

TBS

- 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

TBS

- 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

TBS

- 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

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.

Treasury Board Note.pdf

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**
			Fiscal Plan Basis		*Appropriations Basis*
$ Millions		**2015-16**	**2016-17**	**2017-18**	**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.