Auditor General's Review of the 2018 Pre-Election Report on Ontario's Finances

Ministers' Briefing

April 24, 2018

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Purpose

- To provide an overview of the Auditor General's review of the 2018 Pre-Election Report (PER) and her pending Report, to be tabled in the legislature on Wednesday April 25, 2018.
- To summarize the key issues and feedback provided by Treasury Board Secretariat (TBS) and the Ministry of Finance (MOF) to the Auditor General on her Report.

Key Issues

- TBS and MOF reviewed two drafts (April 18 and April 20) of the AG's Report on the PER and provided comprehensive comments and edits on April 20 and April 21, 2018.
- Significant comments and suggested edits focused on the following issues raised in the Report:
  1. Personal Income Tax (PIT) overstatement of between $100M and $350M – comments largely addressed
  2. Disagreement on Accounting for Fair Hydro Plan and net pension assets – not addressed
  3. Provision of a Consolidated Income Statement in line with Public Sector Accounting Standards – not addressed
  4. Other – comments largely addressed
     a) Appropriate level of Contingency Fund detail
     b) Accurate description of the size of the Reserve
     c) Other factual edits

Key Issues: Personal Income Tax (PIT)

- In the April 18 version of the AG's Report, it was stated that the government's assumptions on Personal Income Tax were optimistic rather than cautious.
  - The PER forecasts personal income tax revenue will be 10.2% higher in 2018-19, based partly on the government's estimate that average employee compensation in Ontario will increase by 5.9%, which potentially overstates forecasted PIT by $100 million to $350 million in 2018-19.

- TBS/MOF responded suggesting the PIT revenue forecast presented in the PER is the most probable:
  - The approach and method applied in the PIT revenue forecast was consistent with that applied in the 2007 and 2011 PER.
  - The impact of the increase in the minimum wage on the economy, and therefore on revenues, cannot be estimated reliably.
  - The overstatement noted by the AG did not result in sizeable variation, representing 0.1% to 0.2% of total revenue.

- The AG removed references to PIT in both the Statement and the Synopsis of the Report; however continues to reference that PIT may not be as high as forecast in the body of the Report.

Conclusion: Comments largely addressed

Key Issues: Accounting Fair Hydro & Pensions

- The AG and the government continue to disagree on the accounting treatment for net pension assets of Ontario Teachers' Pension Plan and OPSEU Pension Plan, as well as the Global Adjustment Refinancing of the Fair Hydro Plan.

- TBS/MOF did not comment on the numerous references to both of these issues in the AG's Report; but confirmed this was not to be interpreted as a change in views regarding the application of PSAS to both of these issues.

- TBS/MOF staff did, however, respond by suggesting that the disagreement is not appropriately described in AG's Report, nor is the impact of the disagreement appropriately addressed.

- TBS/MOF positions were detailed in writing and in discussions with the AG on April 20, and again in writing on April 21; however, it was confirmed that no changes would be made to these references in the Report.

Conclusion: Comments not addressed

Key Issues: Consolidated Income Statement

- The Auditor General writes that the PER has only partially met the requirement to provide a consolidated income statement, stating that the it does not contain a prescribed general purpose future-oriented income statement as required by Section 4250 of PSAB. Instead, the information is presented across three different tables (Tables 1, 5 and 7).

- TBS and MOF believe the income statement presented in Table 1 complies with the requirements of Section 1520 and that the information contained in the report is consistent with the requirements of Section 4250.

- The Auditor General disagrees with this interpretation and has not changed her position in the report.

- TBS/MOF will prepare the same information contained in Tables 1, 5 and 7 in a single table to be uploaded to the PER website.

Conclusion: Comments not addressed

Key Issues: Other

- Contingency Fund
  - TBS/MOF asked the AG to revise its C-fund description to omit the detailed annual amounts and instead including a three-year total and the 2018-19 amount only. The AG also agreed to remove reference to First Nations land claims.

- Reserve
  - TBS/MOF asked the AG to clarify that the three-year total of the Reserve was slightly higher than the three-year total presented in Budget 2017.

- Factual Corrections
  - TBS/MOF and partner ministries fact checked the calculations and numbers in the report and the AG agreed to correct any errors identified.

Conclusion: Comments largely addressed

Communications: Strategic Approach

Strategy

- A low-profile reactive communications approach, with a focus on managing down the issues.
- Coordination between TBS and Ministry of Finance (MOF) on strategy and execution, including media relations protocol, roles and responsibilities.
- Mitigate potential issues with a strong issues management plan.
- Overarching messaging will align with 2018 Budget narrative, and will reinforce that the government:
  - is committed to the principles of openness and transparency;
  - appreciates the work of the independent officers of the legislature; and
  - is upholding its commitment to work constructively with the OAGO.

Objectives

- Confirm that the government is upholding its commitment to transparency and accountability in its fiscal planning processes.
- Achieve a neutral perception of the province’s fiscal situation.
- Focus the narrative on the importance of prudence and cautious assumptions while maintaining flexibility to respond to changing circumstances, in accordance with principles set out in the FTAA and consistent with the 2018 Budget.

External and media relations tools

- Minister’s Statement (reactive only)
- Media QAs & protocol (TBS/MOF)
- House Book Note

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public and the legislature.
- The purpose of the 2018 Pre-Election Report on Ontario's Finances is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- We appreciate the work of the Auditor General in ensuring the public receives an independent assessment of the province's finances in advance of the next general election.
- We are pleased with the Auditor General's determination that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on prudent and cautious assumptions, as required by the Fiscal Transparency and Accountability Act.
- Ontario's fiscal policy is based on cautious assumptions and recognizes the need for flexibility to respond to changing circumstances. During this period of rapid economic change, the fiscal plan considers the impact of today's choices on different groups within the province and on future generations.

Issues Management Strategy

Potential issues:

- Perception that the PER is unreliable
- Pointing to the April 21 Globe & Mail article on hydro accounting, to fuel a narrative of distrust of government financials
- Characterization of differences in opinion regarding treatment of Fair Hydro Plan (FHP) and pension asset accounting as “bogus” and “creative” accounting practices designed to conceal the true picture of Ontario’s finances
- Negative commentary on alleged impact of Bill 148 (minimum wage increases) and public sector compensation costs put forward in AG’s report
- Questions regarding the short-term affordability and long-term viability of new programs proposed in the 2018 Budget and included in program spending sections of the PER

Mitigation Strategy:

- Highlight the AG’s assessment that the estimates regarding revenue, program expenses and interest on debt are based on prudent and cautious assumptions with the exception of two items (FHP, pensions)
- Position the FHP and pension issues as ongoing matters of differences in professional accounting opinion on the application of public sector accounting standards

Next Steps

- Disclosure of final list of subsequent events after the April 24 TB/MBC meeting
- Senior TBS and MOF officials sign and send Management Representation Letter – first thing April 25
- AG releases report – 10:30am April 25, including media availability at 12:00noon

APPENDIX

Results of Review: Summary of Findings (as of April 18 version)

Objectives	Criteria	Results
The *2018 Pre-Election Report on Ontario's Finances* should be consistent with the presentation and disclosure standards established by the Chartered Professional Accountants of Canada for future-oriented financial information and with the requirements of the Fiscal *Transparency and Accountability Act, 2004*	The information presented is consistent with the relevant legislative provisions of the Fiscal Transparency and Accountability Act that govern the Pre-Election Report	Met
	Key economic and financial assumptions are clearly explained and supportable	Met except for the assumptions relating to the presentation of the expenses relating to the Fair Hydro Plan and Pensions.
	Forecasts are significantly detailed to demonstrate the impact of economic conditions and government actions on its fiscal situation	Met
	Significant risks related to forecasts are simply stated and related sensitivity analyses are published	Met
	Government directives and announcements that have a significant influence on the 2018 Pre-Election Report are described	Met
	The financial information is prepared in accordance with the Public Sector Accounting Standards (PSAS)	Not met. The financial information relating to the Fair Hydro Plan and Pensions is not prepared in accordance with PSAS. The failure to prepare this information in accordance with PSAS leads to material misstatement in the projected deficit and provincial debt-to-GDP ratios outlined in the Pre-Election Report.

Results of Review: Summary of Findings (as of April 18 version)

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The *2018 Pre-Election Report on Ontario's Finances* should be consistent with the presentation and disclosure standards established by the Chartered Professional Accountants of Canada for future-oriented financial information and with the requirements of the Fiscal *Transparency and Accountability Act, 2004*	The presentation and disclosure in the 2018 Pre-Election Report is consistent with the presentation and disclosure requirements of CPA Canada Section 4250 (Part V)	Partially Met. The Pre-Election Report does not contain a prescribed general purpose future-oriented income statement as required by Section 4250.
The assumptions relating to the fiscal years ending March 31, 2019, March 31, 2020 and March 31, 2021, respectively, are suitable supported, provide a reasonable basis for estimating revenues and expenses, keeping in mind that the degree of uncertainty with respect to assumptions increases the further in the future estimates are made.	The assumptions used are supported by the expected economic conditions and the decisions of government.	Met
	The estimated revenues and expenses reflect the assumptions used as outlined in the Pre-Election Report.	Met

Results of Review: Summary of Findings (as of April 18 version)

Objectives	Criteria	Results
As of the date of this report , the assumptions used to prepare the report should be consistent with the plans of the Government of Ontario, and the estimated revenues and expenses for the three fiscal years reflect the use of such assumptions	Decisions of government subsequent to March 7, 2018, and prior to the date of the report do not have a material impact on the estimated revenues and expenses for years presented in the Pre-Election Report.	Met
	The assumptions used to estimate revenues and expenses are consistent with the approvals provided by the Treasury Board on the 2018 Program Review, Renewal and Transformation (PRRT) submissions and the 2018 Budget.	Met
	The revenues and expenses for the years presented reflect the decisions of Treasury Board on the 2018 PRRT submissions and the 2018 Budget.	Met

Results of Review: Summary of Findings (as of April 18 version)

Objectives	Criteria	Results
The assumptions relating to the fiscal years ending March 31, 2019, March 31, 2020 and March 31, 2021, respectively, are suitable supported, provide a reasonable basis for estimating revenues and expenses, keeping in mind that the degree of uncertainty with respect to assumptions increases the further in the future estimates are made.	The assumptions used are supported by the expected economic conditions and the decisions of government.	Met
	The estimated revenues and expenses reflect the assumptions used as outlined in the Pre-Election Report.	Met