Radio Transcript: CFRA Interview With Minister McMahon - April 25, 2018

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INTERVIEW WITH MINISTER MCMAHON

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Speaker(s): Eleanor McMahon, Ontario Treasury Board President

EVAN SOLOMON, HOST: That hurts. Let me bring on the Ontario Treasury Board President Eleanor McMahon. Hi Eleanor.

ELEANOR MCMAHON, ONTARIO TREASURY BOARD PRESIDENT: Hi, Evan, how are you?

SOLOMON: Well, I'm good. I (inaudible) better. Now, can you give us any sense of how the Liberals and the government are – they're saying this is a longstanding accounting dispute but I mean this is a big – we're talking about a $6 billion differential here.

MINISTER MCMAHON: That's right, and you know, Evan I used to know you when you were on another network and we've counted each other over the years so it's nice to talk to you again, by the way. I think it's an important piece of context. You're a student of politics and a student of history you might stand back and say, 'why would you pass a law which requires your government to get your Auditor General to publish a report and a statement on the books just before an election?' but guess what, we did that. We did it in 2004 and we did it because the previous government had, you know, said that there was a certain number according to the deficit and then when we took over government in 2003, it was actually $6 billion. So we actually made it the law that this process has to be done. So we undertook this with our eyes open and because we care about transparency and because we wanted the Auditor General to have this opportunity to weigh in and she has done that. And, you know, she has weighed in. She had given us her opinion. We have other expert opinion that happens to be – I agree with her.

SOLOMON: Okay. Just do me a favour. Calling the Auditor General "an opinion" when she's supposed to be the Auditor General. She says she's got – that this is unconventional budgeting, that your government's actually not doing the job of actually being transparent, that it's actually not a proper budgeting process and it's hiding the real scope of the budget. I'm just trying to figure this out. How – it's not "an opinion" here. We're just talking about the accounting practice. Why is hers not – I guess your argument is that hers is not legitimate. Why is that?

MINISTER MCMAHON: I didn't say that and I wouldn't say that. I'm saying we have a disagreement. Let me step back for a second so that listeners can understand precisely what we're dealing with. First of all, let me just contextualize her report today by adding something in that you didn't include which is fair in what said. She said the assumptions that we made in our fiscal plan are cautious, prudent and reasonable. That's important. Our disagreements come about in two areas: first are pension assets that we consider assets because the plans are jointly sponsored and they are assets on our books. She disagrees. We put together a pension asset expert advisory panel of leading accounting and pension experts in Canada. Highly regarded professional people who gave us an opinion and it differed from the Auditor General's. She didn't agree and we don't agree with her. So she had tabled her report today and there's really not much new in it because this is a longstanding dispute that we've had with the auditor. I meet with her. The Finance Minister meets with her. We have a good, cordial relationship. We work together. She works with my officials and, by the way, as you will also know because you are a student of politics, senior members of the public service have to sign off on, not only our fiscal plan but our plan back to balance so it passes scrutiny. Again, I get back to an opinion and that's what we had rendered today.

SOLOMON: The expense understatements relate to two items. I'm reading from the report here. The government failed to properly reflect the true financial impact of its Fair Hydro Plan's electricity rate reduction in its estimates. I don't know. That's pretty plain spots.

MINISTER MCMAHON: Again –

SOLOMON: That's plain speaking

MINISTER MCMAHON: it is plain speaking. For sure. I'm not going to disagree with you on that. Those were her words but the disagreement comes about in the following way: It's about rate regulated accounting. Okay, so when we sought to make a policy decision, which we did, to lower people's hydro rates, Evan, because we invested $70 billion in an important asset and that's our electricity – our hydro-electric system. We simply can't turn on the lights without it. We can't run factories without it. We can't attract investment without it and we created that asset over a period of about 15 years. And so we went out and got some opinions about structuring that asset and then spreading the costs of that asset out over generations. Why? Because those same generations are going to benefit from that asset. The Auditor General disagrees with us on that point

SOLOMON: Right.

MINISTER MCMAHON: And that's fair and we understand that –

SOLOMON: But if the Auditor General is of – if you don't use the same accounting practices, the Auditor General – this is I'm just trying to understand. You're the government. We have this Auditor General. If the Auditor General's just an opinion that the government is free to ignore, what is the purpose of it? When I'm reading the Auditor General's actual report and it's – listen, she's choosing her words pretty carefully. Not only does she say you failed to properly reflect the true financial impact of fair hydro, she then goes on to say that you are fundamentally misleading. Her words, quote, "you are understating future expenses for the Ontario Public Service Employees Union Pension Plan" and she, listen, "when the expenses are understated," she writes, "the perception is created that the government has more money available than it actually does." That is a textbook definition of being misled.

MINISTER MCMAHON: So let me just weigh in on that thought, Evan.

SOLOMON: Please.

MINISTER MCMAHON: So again, the Auditor General has given her opinion. You said earlier that she was plain and then you said that she chose her words very carefully. She has been abundantly clear in her statements today. Let me tell you something really important from an accounting point of view. The public's Public Sector Accounting Standards that we rely on as government are silent on rate regulated accounting. What does that mean? That means that they haven't got a rule in place that's consistent with rate regulated accounting. And so when they are silent, we look to other global standards. So we went to the United States where they have rate regulated accounting, by the way, and so do several other provinces in Canada. The U.S. GAP, the General Accounting Principles, says that rate regulated accounting is very common in the energy sector. It's allowed and it's standard practice.

SOLOMON: Okay.

MINISTER MCMAHON: So (inaudible) we say it's standard practice.

SOLOMON: She doesn't.

MINISTER MCMAHON: The Auditor General says it isn't. We have a difference of opinion between accountants.

SOLOMON: But her… okay, but her point is this is a difference, she says it's not standard practice, but you've gotta to appreciate the deficit in her view, the public, she says, are better served knowing that the deficit is closer to $12 billion than $6 billion.

MINISTER MCMAHON: And that, again, is her opinion.

SOLOMON: But it seems to me that it's politically expedient for your government to say that deficits are lower than the Auditor General because you don't – you're going into an election.

MINISTER MCMAHON: Evan, by that standard, why would we have passed legislation in 2004 to make it clear to Ontarians what the state of our books are and be transparent about it? Don't you find that interesting? Why would we have done that? We did it because we wanted to be transparent. The Auditor General and (inaudible) let me finish.

SOLOMON: But when results come up that you don't like, you just call it an opinion.

MINISTER MCMAHON: But we differ – this is not about politics at all. This is about something incredibly serious and we sat down and we got expert opinion from panels, from private sector accounting firms, which by the way are globally recognised and the people that sat on our pension panel are some of the greatest Canadian experts on pensions and benefits and accounting and those people advised us and they said that our treatment of this pension plan is an asset was absolutely within keeping of standard practice and it was fine.

SOLOMON: Okay, so –

MINISTER MCMAHON: We had a difference of opinion, Evan. And you know what? We understand that differences of opinion happen. Our deficit target – our fiscal plan – important to remind listeners by the way, what she said in the foreword of her report, which was that our fiscal plan was cautious, prudent and reasonable.

SOLOMON: But hang on. Let's not cherry pick. If you want to cherry pick what she says, that's fine.

MINISTER MCMAHON: I'm not cherry picking. I'm telling you what she said.

SOLOMON: I know, but she says outside of these two fundamental factors that would double the deficit, you are prudent. So why take the compliment from her, yes, she says they're prudent assumptions, but she says outside of these two fundamental issues which would double the deficit – it's close to $12 billion than $6.7 billion – but now you're saying, see? She says we're doing great except on the two things that we're not and we reject that.

MINISTER MCMAHON: No, but that's critical to your argument that you've already made which is that we differ. Our fiscal plan, by the way, which was accepted by the opposition, they accepted it in their People's Guarantee. They said they were going to use our assumptions; they were going to use exactly the same accounting. They are going to use exactly the fiscal plan. The NDP did the same thing. They're going to do the same thing on the Fair Hydro Plan. Everybody has accepted it. We have a difference – so the piece about this being political doesn't wash, Evan, because the other parties have taken this as well.

SOLOMON: Sorry, I know you can talk about (inaudible) but with all due respect, I'm just reading the report. You're telling me something is not political but the Auditor General is saying when expenses are understated, the perception is created that the government has more money than is actually available and therefore, she says, more money will need to be borrowed to pay for the unrecorded expenses. She is fundamentally saying you're misleading the public.

MINISTER MCMAHON: We disagree with respect and I think that respect piece is really important. You know, I met with the Auditor General yesterday. We had a very professional and cordial conversation. Our relationship is really important. The Finance Minister meets with her. My officials work with her. We have an open and constructive and professional relationship. That is why I can sit here today and say to you that there's a disagreement here in terms of the accounting treatment. We understand your point of view –

SOLOMON: Can I just ask –

MINISTER MCMAHON: Our fiscal plan has been created by some of the best public servants in the country. They have to sign off on it by law. Their credibility is at stake as well, by the way, as is the credibility of the accounting firms that have weighed in on this, Evan. So we're going to agree to disagree.

SOLOMON: Can I just ask – your government's been in power for many, many years. Why couldn't you guys figure out what accounting system to use so the Auditor General and the government can actually use the same one so the public can trust instead of – the Auditor General, who's the independent watchdog who the public supposed to be able to turn to, says something and the government says, 'well, they use a radically different system than we used.' (Inaudible) Why couldn't you get on the same page as the Auditor General? Why not?

MINISTER MCMAHON: It’s fair. So I said to you earlier that the public sector accounting system and the standards are silent on the issue of rate regulated accounting. We chose rate regulated accounting precisely because Ontarians were telling us that they wanted relief on their hydro bills. We gave it to them. We had a $70 billion asset. That's a treatment rate regulated accounting took money from the tax base and put it onto the rate base where it belongs because those rate payers are paying for the upgrades that we've made in their system and so PSAS is silent. We went to GAP which is used in the United States, right, which is used in other jurisdictions in Canada. So –

SOLOMON: I just – I think the average person would like, I don't know what they're doing in the U.S., they'd like the government and the Auditor General to use the same thing.

MINISTER MCMAHON: We don't have public accounting rules under PSAS for this and so we got opinions. We had a panel. We had experts weigh in, Evan, so again, we have a difference of opinion, you know, and this is not new. We've had this difference of opinion with the Auditor for some time now.

SOLOMON: All right.

MINISTER MCMAHON: And as I said to you earlier, we voluntarily submitted to have our books come under this scrutiny. So you can't say that we haven’t been transparent and you can't say that we haven't been upfront with Ontarians. We absolutely have.

SOLOMON: Listen, all I can tell you is that there's a – almost a $6 billion difference between your view and the Auditor General’s and the people are going to decide. Eleanor McMahon, Treasury Board President, I appreciate it. Thank you.

MINISTER MCMAHON: Difference in point of view. Nice to talk to you. Take care.

SOLOMON: Bye.