Draft Statement - PA

From: "Ingram, Kelsey (MOF)" <kelsey.ingram@ontario.ca>
To: "Ghiassi, Ali (MOF)" <ali.ghiassi@ontario.ca>
Date: Mon, 03 Oct 2016 02:07:36 -0400

Hey Ali –

Here is the draft statement for the Minister tomorrow. I tried not to duplicate Minister Sandals statement too much as she covers a lot of ground in hers.

Minister Sandals' Statement – Release of 2015-16 Financial Statements

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection. As I assured in the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements. The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then reviews this.

Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015-16 Public Accounts. We did so because t his year, the Auditor General the Province' with a new interpretation of public sector accounting standards as related to the accounting treatment of jointly-sponsored pension plans and are subject to a range of interpretations.

Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences of opinion.

The Public Sector Accounting Board has recognized the complexity of this issue and is working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.
To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions. Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position the government is releasing its financial statements. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances as soon as possible.

The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

It is also important to stress that the two pension plans in question – the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan – are both healthy and well funded.

Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

Our officials and professional accounting staff will continue to work with the Auditor General's office to resolve this complex accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Draft Statement by Minister Sousa

For the past 14 years, our government and previous governments have followed the same accounting principles. These principles have been consistently accepted by the past three Auditor Generals, including the current Auditor General who, under these same principles, has provided unqualified – or clean audit opinions for the past two years.

It's only recently, that the Office of Auditor General has changed its mind regarding how it feels pension assets for jointly sponsored pension plans should be recognized.

As you know, this new interpretation has resulted in a difference of opinions between accountants from the Civil Service and the Office of the Auditor General.

I have great respect for the expertise and independence of both the Office of the Auditor General and the Province's professional accounting staff and believe their respective opinions warrant additional discussion and analysis.

However, we also have a responsibility to the people of Ontario to be open and transparent about our financial position. It is important that Ontarians see that even in this time of global economic uncertainty, Ontario's economy continues to grow and our deficit continues to shrink.

In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

It is also important that we remain open and transparent so investors and the financial markets can maintain their confidence that Ontario is still on track to balance the budget in 2017-18.

That is why we have decided to release our financial statements to the public today despite the divergence in accounting opinions. In order to do this, we regulated the treatment of the pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General for 2015-16. We believe this to be the most cautious approach that ensured the public had access to our financial statements and that our numbers aligned with those of the Auditor General – at least until an independent review of the opposing opinions can be completed.

Not sure if we need the following: **We did this for three primary reasons:**
First – Given that there is a difference in opinion between sets of accountants, we think it is important that the Office of the Auditor General's numbers and the government's numbers are the same;

Secondly – We have taken the cautious approach in using the Office of the Auditor General's interpretation of the accounting standards which results in our deficit number being 1.5 billion dollars higher than it otherwise would have been;

Finally – Considering the difference of opinion remains, we believe that this accounting matter would benefit from additional discussions, information and consideration and so we will seek the advice of independent experts and initiate a review of the application of Public Sector Accounting Board's pension accounting standards to Ontario's jointly sponsored pension plans.

This impact of this change resulted in our deficit number being 1.5 billion dollars higher than it otherwise would have been in 2015-16. I want to reiterate however Minister Sandals' comments to stress that after incorporating the Auditor's proposed accounting interpretation, we have still beaten our deficit target for the seventh year (FACT CHECK) in a row.

We have done this by controlling the growth in spending….

…by making sure that every dollar spent provides maximum value to taxpayers…

…and by improving the integrity of our province's revenues.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

Our government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19 as outlined in the 2016 Budget.
The new accounting interpretation does not change that commitment nor does it change the progress we have made in creating jobs and growing the economy.

Beating our deficit targets also helps keep interest on debt at a manageable level.

The regulated accounting change has no impact on the Province's borrowing requirements and our total debt remains unchanged by the pension adjustment. Based on our government's plan, net debt-to-GDP is expected to peak in 2015–16, remain level in 2016–17 and begin to decline in 2017–18 – supporting greater sustainability in Ontario's debt management.

Looking forward, given the Auditor's revised accounting standard interpretation and its subsequent review are recent developments, they will both be taken into consideration along with other economic factors, as we prepare the 2016 Fall Economic Statement and 2017 Budget.

Thank you.

We will now take your questions.