Ontario's Annual Report and Unaudited Consolidated Financial Statements for 2015-16

Minister Sandal's Statement

The following statement was issued today by Liz Sandals, President of the Treasury Board:

"I am pleased to confirm that 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 interim projection in the 2016 Budget.

As I assured 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 work.

Earlier today, Minister Sousa and I met with the Auditor General to discuss finalization of the 2015-16 Public Accounts. We did so because this year, Treasury Board public servants and the Auditor have been engaged in discussions regarding the accounting treatment of pension assets based on a new interpretation of public sector accounting standards taken by the Auditor.

Unfortunately, at this time, the Auditor General has not provided an audit opinion on the province's financial statements for 2015-16. This is why the government is releasing these unaudited financial statements to ensure openness and transparency.

We felt it was important for there to be one set of numbers with respect to the province's financial position. The government believes it is in the public interest to release its financial information now since we are six days past the legislated deadline.

I would now like to take this opportunity to discuss the pension issue in more detail.

Pension accounting requires the application of professional judgment. After working together as much as they could the Province's professional accounting staff and the Auditor General could not reach an agreement on the appropriate application of the Public Sector Accounting Board's standards in relation to pension accounting.

To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. In fact, 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 standard over the past 14 years.

In order to maintain the integrity of the public service, which recommended the previous accounting treatment, and respect for the Auditor, who recommended a new treatment, our government looked to find an immediate solution.

This resulted in the government regulating the treatment of pension assets to reflect the fiscal outcome proposed by the Auditor General. We wanted to take a cautious approach during the period under which this issue will be reviewed by experts. This approach also reassures the public the government is on track in regard to its fiscal targets. The impact of the change resulted in an additional $1.5 billion added to the deficit and additional $10.7 billion being added to the net debt.

The Public Sector Accounting Board has recognized the pension issue and is working with governments across Canada to provide additional clarity to the current standard. Ontario will be part of this national discussion. Ontario will also be engaging with the experts to support a full review on 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.

It is 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.

Second, I would like to take this opportunity to say a little more about the 2015-16 Financial Statements. 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 next year in 2017-18, and remain balanced in 2018-19. And for emphasis, the Province is taking the same view of its 2015-16 results as the Auditor.

Openness and transparency is a top priority for our government and we believe it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that the Public Accounts can be released.

I would now like to turn it over to Minister Sousa."

Minister Sousa's Statement

For the past 14 years, our government and previous governments have followed the same accounting standards with respect to the treatment of jointly sponsored pension plans. These standards have been consistently accepted by the past four Auditor Generals, including the current Auditor General who, under these same principles, has provided unqualified – or clean audit opinions for the past two years.

This year, two weeks before the September 27th deadline for the tabling of the Public Accounts, we learned in writing that the Office of the Auditor General's new interpretation of the accounting treatment of our jointly sponsored pension plans would result in those assets being written off without value.

In addition, as you know, this new interpretation has resulted in a difference of opinions between accountants from within the Ontario Public 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 fiscal plan continues to improve.

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.

The impact of this change resulted in our deficit number being $1.5 billion higher than it otherwise would have been in 2015-16 had we used the standards employed for the past 14 years. I want to reiterate what Minister Sandals has said that after incorporating the Auditor's proposed accounting interpretation, we have still beaten our annual deficit target for the seventh year 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.

It is also important to note that the regulated accounting change has no impact on the Province's borrowing requirements and our total debt remains unchanged by the pension adjustment. I should also add that just today, Moody's released a report noting that – and I quote – "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."

As we prepare the 2016 Fall Economic Statement and 2017 Budget, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of this accounting treatment, will need to be taken into consideration, along with other emerging economic and fiscal information. This is particularly important as we continue to track toward our commitment to balance the budget in 2017-18 and 2018-19.

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