CONFIDENTIAL REVISED: April 25, 2018

2018 PRE-ELECTION REPORT

ISSUE: What is the purpose of the Pre-Election Report, and how is the government ensuring transparency and accountability in its fiscal planning process?

KEY MESSAGES:

- The Pre-Election Report on Ontario's Finances, introduced in 2007, was the first of its kind in Canada and today remains one of only a few such documents in the world.
- 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 Ontario general election.
- The province is committed to providing clear and accurate financial reports that support transparency and accountability in reporting to the public and the legislature.
- 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 Ontario general election.
- It is important to note the Auditor General's determination that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on 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.

CONTEXT:

- The 2018 Pre-Election Report on Ontario’s Finances was released on March 28, 2018. The report provides details on the government’s medium-term fiscal plan, including estimated future revenue and expenses, and other details of its fiscal planning process.
- The 2018 Pre-Election Report presents the fiscal plan for 2018-19 to 2020-21 fiscal years, consistent with the 2018 Ontario Budget presented on March 28, 2018.
- The *Fiscal Transparency and Accountability Act, 2004*, (FTAA) requires that the Pre-Election Report include information on:
    - The macroeconomic forecasts and assumptions used to prepare the fiscal plan;
    - An estimate of Ontario’s revenues and expenses, including estimates of the major components of the revenues and expenses as set out in the plan;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario’s gross domestic product (GDP).
- FTAA also requires the Auditor General of Ontario to promptly review the Pre-Election Report and issue a statement on the results of that review.

CURRENT STATUS:

- On February 23, 2018, the government filed a regulation under the Fiscal Transparency and Accountability Act, 2004 (FTAA) that requires the government to issue a pre-election report no later than seven (7) days after the day on which the Minister of Finance moves the Budget motion.
- The FTAA also requires the Auditor General of Ontario (AG) to promptly review the pre-election report and issue a statement on the results of that review.
- The 2018 Pre-Election Report on Ontario's Finances was released on March 28, 2018. It was distributed to stakeholders, including the AG, media outlets, Opposition and Third Party, during budget lock-up, and was posted publicly to Ontario.ca following the Budget motion.
- On April 25, 2018, the AG issued her report on the results of her review. The Report concludes that the PER is not a reasonable presentation of Ontario's finances, determining that the Fair Hydro Plan and accounting of net pension assets understates expense estimates and contributes to an understatement of Provincial debt to GDP.
    - After adjusting for these items, the Report asserts that the annual deficit figures are $11.7B in 18-19, $12.2B in 19-20, and $12.2B in 20-21.
- With the exception of these two items, the Report concludes the majority of the province's estimates regarding revenue and program expenses are based on cautious assumptions.
- The Report also concludes that new initiatives and the expansion of programs presented in the medium-term fiscal plan are based on reasonable assumptions, but identifies two potential expense risks, including:
    - Compensation costs could differ from estimates as a number of public sector collective agreements are up for renegotiation over the next three years
    - The roll-out of new programs could face upward pressure due to higher than forecast uptake of entitlement programs
- April 25 delivery situates the AG's report in close proximity to several other high-profile third-party reports and release of fiscal planning documents including:
    - The AG's Special Report on the Independent Electricity System Operator (IESO), posted to the AG's website on April 2, 2018;
    - The government's tabling of the 2018-19 Expenditure Estimates on April 23, 2018;
    - The release of the Financial Accountability Office's 2018 Economic and Budget Outlook report, anticipated before the writ of election (May 9, 2018); and
    - Two reports to the legislature from the Standing Committee on Public Accounts, on Chapters 2 (Public Accounts) and 5 (Government Advertising) of the AG's 2017 Annual Report.

BACKGROUND:

Engagement with the Office of the Auditor General

- TBS and MOF staff initiated pre-planning work for the PER in partnership with the OAGO in December 2017.
- Between December 2017 and March 2018, TBS and MOF worked with the OAGO to provide historical information to support OAGO staff preparation for the review of the PER, released on March 28.
- Between March 29 and April 18, TBS, MOF and line ministry staff provided information to support the OAGO's review of the 2018 PER.
- An Assistant Deputy Minister-level TBS and MOF oversight committee, and a director-level TBS and MOF working group, both met throughout the production and review process to resolve issues and provide direction, track information requests,

and prepare responses to the OAGO.

- Weekly touch-points amongst senior level TBS, MOF and OAGO staff began in early April to ensure progress toward the April 25 timeline for completion of the Auditor General's review report.

Regulation

- The Fiscal Transparency and Accountability Act, 2004 (FTAA) sets out principles governing Ontario's fiscal policy and includes provisions related to the content and timing of reporting on the government's multi-year fiscal plan.
- Provisions in the FTAA allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report (PER) and a review of that report by the AG.
    - The FTAA establishes regulation-making authority to require the government to release a PER, define related timelines, and requires the AG to review it and issue a statement in response.

Pre-Election Reports

- While not statutory requirements, the PER has been prepared in accordance with accounting standards for future-oriented information (and consistent with the approach taken in 2007 and 2011, as well as the current AG's expectations), which requires that forecasts be based on the most probable set of conditions, including reasonable, supportable, internally consistent assumptions.
- The provisions in the FTAA related to the PER are jointly administered by the Minister of Finance and the President of the Treasury Board.
- Prior to releasing a review report, the AG would also require a signed Management Representation Letter confirming that all material updates, including pending updates, have been disclosed.
- The government produced pre-election reports in 2007 and 2011, but not in 2014 (as the election date was not fixed and could not be anticipated).

Financial Accountability Officer

- The Financial Accountability Office (FAO) has a mandate to conduct an independent analysis on the state of the province's finances and trends in the provincial economy:
    - The FAO regularly produces Economic & Fiscal Outlooks including analysis consistent with the intent of a PER; and
    - The FAO is expected to release an Economic & Fiscal Outlook, or a similar report, in spring 2018 prior to the writ period.

RECENT MEDIA COVERAGE:

- April 21, 2018: (Globe & Mail) an article by Matthew McClearn analyses the Fair Hydro Plan, IESO and government and public sector decision-making, with a focus on the difference in professional accounting opinion between the government and AG. The article positions the requirement to issue a pre-election report as a 2007 "antidote to the Conservatives' alleged accounting shenanigans," and quotes then-Minister of Finance, Greg Sorbara. The article describes Ontarians as "heading to the polls in June…confronted by two conflicting accounts about the state of their province's current and future indebtedness."
- April 18, 2018: (Toronto Sun) an article by Antonella Artuso quotes from Doug Ford's announcement regarding conducting a post-election audit if elected, and states that the AG "has criticized the Wynne government's accounting methods, and it's not been publicly revealed whether she will sign off on the pre-election books."

- April 17, 2018: (QP Briefing) an article reports on Conservative leader Doug Ford's pre-election promise that, if elected, he will engage a third-party auditor other than the OAGO to audit the province's books. The article mentions the AG's forthcoming review of the 2018 Pre-Election Report.
- April 5, 2018: On March 28, the Canadian Taxpayers Federation (CTF) posted a call to action to its supporters, recognizing the AG "for her courage standing up to the government," and noting that the AG may issue an adverse audit opinion on the province's books. The press release defined such an opinion as indicating "financial statements are misrepresented, misstated, and do not accurately reflect financial performance and health." The April 8 online update included a PDF of a letter from the AG to CTF, thanking the organization for its efforts in highlighting accounting issues and encouraging public discourse.
- March 27, 2018: A TVO article briefly mentioned the government is required to issue a pre-election report within one week of the budget's release.
- March 19, 2018: (multiple media outlets) coverage of the Speech from the Throne focused on potential program and service announcements signalled as being included in the forthcoming 2018 Budget, and the implications of a return to deficit for fiscal 2019-20 and 2020-21. The Pre-Election Report was not mentioned in the coverage; however, a number of issues were raised in the day's media coverage, which will be reflected in the details of the forthcoming Budget and Pre-Election Report.
- March 7, 2018: (Toronto Star) an article by Robert Benzie reports on Minister Sousa's remarks to the Economic Club of Canada, which announced the 2018 Budget would be released on March 28, 2018. During his remarks, the Minister of Finance indicated that the government would be "choosing to put our strengthened fiscal position to work, to address our priorities, your priorities — and, as a result, we will be running a deficit, starting next year".
- February 26, 2018: (QP Briefing) an article quotes from the jointly issued ministerial statement (Sousa, McMahon), "In order to ensure the Auditor General has as much time as possible to complete the review this year, the government intends to release the pre-election report concurrently with the 2018 Budget. Both the 2018 Budget and pre-election report will be available to the Auditor for review in the coming weeks." The article notes that in her 2017 annual report, the AG called upon the government to release the report to her office.
- December 17, 2017: (Toronto Sun; Ottawa Sun) an article by Lorrie Goldstein stated the Auditor General had warned in her 2017 Annual Report "time is running out for the Liberals to fulfil the requirements of their own legislation, the Fiscal Transparency and Accountability Act, passed in 2004," to release a pre-election report prior to the June 7, 2018 election. The article notes that the AG's work cannot commence until the report is released, and that in past elections, that work had taken 10 weeks to complete. Opposition finance critic, Vic Fedeli, is quoted, calling upon the government to "follow the law, pass a regulation, and release your pre-election Finance Report by a committed deadline." A spokesperson for then President of the Treasury Board, Liz Sandals, is also quoted, indicating that Minister Sandals and the Auditor General have "spoken at length about the Pre-Election Report process, and agreed that the past format and process won't work during the 2018 election cycle, given the proximity of the spring budget season to the early summer election date." The ministry spokesperson is also quoted as saying, "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of the government, to openness and transparency. We will continue to work collaboratively with the Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

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