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**Monday 24 February 2003**

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**Lundi 24 février 2003**

**Standing committee on  
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Provincial Auditor:  
Ministry of Finance

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Chair: John Gerretsen  
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

## COMITÉ PERMANENT DES COMPTES PUBLICS

Monday 24 February 2003

Lundi 24 février 2003

*The committee met at 1116 in room 151.*

2002 ANNUAL REPORT,  
PROVINCIAL AUDITOR  
MINISTRY OF FINANCE

Consideration of section 5, public accounts of the province.

**The Vice-Chair (Mr Bruce Crozier):** I'll call to order the meeting of the standing committee on public accounts to review the auditor's 2002 annual report, and in this case, consideration of chapter 5, public accounts of the province. We have with us this morning the Ministry of Finance. We welcome you. We welcome everybody. I just remind you that if any of us have cell phones, we'd appreciate it if they were turned off or muted or in some way made silent. We'd appreciate that when you initially address the committee, you provide us with your name and your—

**Mr Richard Patten (Ottawa Centre):** Date of birth.

**The Vice-Chair:** —name, rank and serial number; how's that? The procedure will be as normal. You'll have up to 20 minutes, let's say, around there, to make any comments that you wish, and then we'll start in rotation with the caucuses and see how it goes.

**Mr Gabriel Sékaly:** Thank you, Mr Chair. Good morning. My name is Gabriel Sékaly. I'm the assistant deputy minister of the fiscal and financial policy division at the Ministry of Finance. With me is Robert Siddall, who is the provincial controller. I'd like to apologize; the deputy minister at the last minute was not able to attend this morning. I'll do my best to answer the questions you may have.

Today we're here, as the Chair said, to address issues raised by the Provincial Auditor in chapter 5. We've handed out a presentation, a slide deck, that I'll go through. On slide number 2, basically the issues that are being addressed in chapter 5 are the government reporting entity; multi-year funding; the move to accrual accounting for appropriation control, also known as the estimates; the federal tax error; stranded debt on the electricity sector; and finally, accounting for tangible capital assets.

I'm happy to note that as referred to in chapter 5 of the Provincial Auditor's annual report, the province received an unqualified opinion on the 2001-02 financial statements. In fact, the province has received an unqualified

opinion on all of its financial statements since fiscal year 1993-94. This has been accomplished by working closely with the Provincial Auditor and his staff over the years to ensure that we are complying with the stated accounting policies of the province, which are those standards recommended by the Public Sector Accounting Board.

Slide 4 talks about the Public Sector Accounting Board, or PSAB, which is an arm of the Canadian Institute of Chartered Accountants and is responsible for issuing recommendations and guidance on accounting and financial reporting by governments in Canada. It is independent of governments, and its recommendations are developed through a public process with comments provided by government accountants, provincial and federal auditors, academics and other interested parties. The province has implemented PSAB standards in its summary financial statements since 1993-94 and in the budgets since 1995-96. This was in response to the recommendations of the Provincial Auditor as well as the Ontario Financial Review Commission.

The first issue raised by the Provincial Auditor is the government reporting entity. PSAB was established in 1981 and has been developing standards and guidance for all levels of government over the last 20 years. They have a number of projects that we're currently working on, including those referred to in chapter 5 of the auditor's report. The process of developing new recommendations can take two to three years before completion.

One of the first areas that PSAB is working on is undertaking a review of the criteria in determining which organizations are included in the government reporting entity; in other words, which organizations should be included or consolidated in the province's financial statements.

As indicated on slide 7, the province currently includes in its reporting entity all government ministries, significant government organizations such as TVOntario and the Ontario Financing Authority and significant government enterprises such as the LCBO and the Ontario Lottery and Gaming Corp. School boards, colleges, universities and hospitals, also known as the SUCH sector, are not included in the government's reporting entity; however, other provinces include some or all of these organizations in their reporting entity, as in some cases these organizations form part of government. In other words, they're directly delivered by government departments.

On page 8, in November 2002, PSAB issued an exposure draft on the government reporting entity. PSAB undertook this review because of difficulties with interpreting and applying the existing criteria, particularly with respect to school boards, universities, colleges and hospitals; in other words, the SUCH sector.

Slide 9: the proposed new PSAB standard focuses solely on control as the determining factor for whether an organization is included in the government's reporting entity. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or risk of loss to the government from the other organization's activities.

Slide 10: the proposed PSAB recommendations will be principle-driven, requiring the government and the Provincial Auditor to review the actual circumstances in determining if control exists. Depending on the assessment of control, the proposed new PSAB standards could have significant impacts for the province, potentially requiring the consolidation of school boards, universities, colleges and hospitals. The Ministry of Finance and the Provincial Auditor's staff are currently reviewing the proposed new standards to determine the implications for the province and the broader public sector.

Slide 11: the province has responded to PSAB's exposure draft. It has provided the following advice to PSAB: there should be direct consultations by PSAB with the SUCH sector on the implications of these proposed changes; there should be research by PSAB into the expectation of the public users of financial information with respect to responsibilities and accountabilities of the SUCH sector; there should be an analysis of the incremental financial reporting benefits to the public in relation to the cost and an analysis of the impact on public accountability structures and the delivery of primary health and education programs to the public; finally, there should be a more feasible implementation timeline, given the need to conform SUCH sector accounting policies to those of the province if they are to be included.

As indicated in chapter 5 of the Provincial Auditor's report, school boards use a different method of accounting for capital, as an example, than the province does. In addition, the ministry also recommended that the issue of how to account for any new organization be resolved prior to issuing any final recommendations.

Before implementing any key recommendations issued by PSAB, I believe that some key questions need to be answered. Do the recommendations help the public better understand the operations of government, and will the benefits of implementing this outweigh the costs to implement it? Ministry of Finance staff are currently reviewing the proposed new standards to determine the implications for the province and the broader public sector. Ministry of Finance staff will continue to work with PSAB and the Provincial Auditor and his staff on this issue. This is an ongoing process which should be completed in the next few years.

The next issue, on slide 13: in his 2000 annual report and in subsequent reports, the Provincial Auditor com-

mented on transfers provided by the province to fund the activities of transfer recipients over a number of years. These transactions were booked by the province as current period expenditure in accordance with PSAB recommendations and consistent with common practice among other jurisdictions in Canada. The Provincial Auditor has expressed concerns with this accounting treatment but noted that PSAB does not deal with the issue in an unequivocal manner. He recommended that funding which relates to future years be treated as advances, included on the government's statement of financial position as assets and drawn down and charged as expenditure in the years in which the activities funded actually occur.

PSAB has recently established a task force on government transfers, which is looking into this issue of multi-year funding. The Ministry of Finance staff continues to work with both PSAB and the Provincial Auditor's staff on this issue.

Slide 14: the government introduced amendments to legislation in the spring 2002 budget bill, which received royal assent in June 2002, that converted legislative spending authority and appropriation control to the accrual basis of accounting effective fiscal year 2003-04. This change is in line with the government's commitment to improving accounting practices in the context of a more efficient, effective and accountable government. It provides for more transparency for the members of the Legislature and the public. The Ontario Financial Review Commission in 1995 and 2001, as well as the Provincial Auditor, recommended the adoption of accrual accounting for legislative authority and appropriation control.

In January 2002, the federal government announced that it had made an error in calculating the province's personal income tax revenue in prior years. The Canada Customs and Revenue Agency, or CCRA, collects and administers the personal income tax of all provinces except Quebec. The federal error resulted in overpayments of personal income tax revenue to the province. The provincial portion of capital gains refunds paid to mutual fund trusts was not properly deducted from the personal income tax revenue remitted to provinces. The federal government has demanded repayment of a total of \$1.3 billion for the taxation years up to 1999. The amount included in the province's revenue in 2001-02 for taxation years 2000 and 2001 was \$713 million. Consistent with proper accounting treatment, the province's 2001-02 financial statements included a provisional adjustment for the federal tax error, and the province's results for 2001-02 were retroactively adjusted for the error.

I want to also thank the Provincial Auditor for his help in dealing with this issue. He, along with the federal auditor, reviewed the work of CCRA in determining the extent of the error, and as best we could, based on the information that CCRA had, provided assurance to the province in terms of the extent of this error.

Notwithstanding that, the province does not agree with the position taken by the federal government on this matter. Booking the adjustment for the federal error does

not prevent Ontario from making a claim or initiating other legal action in future against the federal government. In his 1999 annual report the Provincial Auditor commented on certain problems with the tax collection agreement between the federal government and the provinces, and we are working to resolve those issues.

Slide 17: on the issue of stranded debt, the Provincial Auditor has agreed with the accounting treatment of the stranded debt of the electricity sector as it is reflected in the budget and the public accounts. However, he has continued to express concerns about the risk that the stranded debt will not be recoverable from ratepayers and will therefore become a liability to the taxpayers.

As part of the audit of the public accounts, the Provincial Auditor reviews in detail the forecasts of the defeasance of this debt. The model is updated each year for changing circumstances and continues to support the defeasance of this debt within a reasonable time period. The model will be updated and audited again as part of the 2002-03 public accounts.

On slide 18, I'd like to finish my presentation by talking about accounting for tangible capital assets. We are pleased that the Provincial Auditor supports the decision of the province to move to full accrual accounting for the province's investment in tangible capital assets beginning in fiscal 2002-03. Reporting capital on a full accrual basis is similar to private sector accounting for capital with the assets carried on the province's balance sheet being amortized over their useful life. The province is taking a phased-in approach and will be reporting on land, buildings and transportation infrastructure initially. The remaining assets will be brought on once the province's new financial system is fully implemented.

Both the Provincial Auditor and the Ontario Financial Review Commission have recommended that the province enhance financial information on tangible capital assets. The 2002 budget included the impact of changing our accounting for tangible capital assets. The Ministry of Finance continues to work with the Ontario Realty Corp, the Ministry of Transportation, the Ministry of Northern Development and Mines, and the Provincial Auditor in moving forward with this initiative.

In conclusion, I'd like to thank the Chairman and members of the standing committee for the opportunity to appear before you. The Ministry of Finance staff will continue to work with the Office of the Provincial Auditor, PSAB and other jurisdictions in the development of financial reporting and accounting standards for governments.

I'd be happy to take any questions you may have. Finally, I'd like to note that I know all of you are so busy that additional material may not necessarily be helpful. However, we have brought a guide that we've passed out, a recent publication entitled *A Guide to Financial Management Policies and Practices in Ontario*, which could be a useful source of information for members. We've tried to explain in as plain language as possible the accounting and how financial management policies and practices are evolving in Ontario.

1130

**The Vice-Chair:** That concludes your remarks. We'll then simply begin our rotation, and I think we're picking that up this morning with the government caucus. Mr McDonald.

**Mr AL McDonald (Nipissing):** We'll pass our time this round.

**The Vice-Chair:** OK. Mr Patten.

**Mr Patten:** My question is—and Mr Siddall, perhaps you might want to answer this—in terms of the role of the comptroller, did the finance committee know that indeed there were overpayments to the province from the federal government in terms of the tax collection this year?

**Mr Sékaly:** Did the Ministry of Finance know?

**Mr Patten:** Yes.

**Mr Sékaly:** No, the Ministry of Finance was not aware of the situation until—I think January 29, 2002, is when the federal government informed the province of this overpayment. We do not have the information. We rely on the federal government to provide us with accurate information and data. If you want, I'm sure the Provincial Auditor's office, which was involved in reviewing this, could add to that.

**Mr Jim McCarter:** That's correct; the information just isn't available. Actually, we were asked that by officials at CCRA, and we did not know until advised in January 2002.

**Mr Patten:** Education is expensive, so presumably now—and maybe I'm being presumptuous, but if I were in finance, I'd say, "We'd better have our own system of getting a handle on what it is and on the accuracy of our arrangement with the federal government." Maybe that's one of the things the task force or committee is looking at in anticipation that this may—hopefully it wouldn't, but if it did occur again we would be on top of it and anticipate that we'd be caught with a shortfall or whatever it is.

**Mr Sékaly:** Yes. I believe the federal Department of Finance was also surprised by the error that CCRA had made on this issue. We are trying to solidify the information from the federal government, from CCRA as part of the tax collection agreement, to get accurate information that we can rely on; not only ourselves but also the auditor as his office audits the books of the province. There has to be representation from the federal government that these numbers are indeed accurate.

**Mr Patten:** Mr Comptroller, is this one of your recommendations in here, in terms of controlling the knowledge and the accountability of anticipated funds or—

**Mr Robert Siddall:** I think it's something we have to look at. But in the past, we've had audit procedures done by the Auditor General of Canada on the numbers. I know Mr McCarter has been working with the Auditor General to see what procedures we can put in place from an audit perspective to see that this doesn't happen again.

**Mr Patten:** My only point is that I think it was an error on behalf of the feds which was fairly costly for us.

But at the same time, it seems to me that to avoid the possibility of a future event, we must have some relationship of being able to know as closely as possible to payment schedules expectations of what the dollar figures may be, even though they may be estimates. That wasn't a question.

In terms of the government reporting entities and the Provincial Auditor talking about fairly large transfer recipients—they use the term “SUCH group”: school boards, universities, colleges and hospitals. It used to be the MUSH group; the municipalities were included in that and presumably still are. They are substantial, and I guess their concern is that, following the money with major transfers, there would be a role for the auditor's being able to take a look at this. Or in the definition—you mentioned that there was a review of criteria of what should be included and that the auditor was using the term “essentially control.” So I want to ask you about your saying the committee is examining criteria, followed by perhaps discussions and consultations with such groups about the implications of all this. Are there any preliminary leanings in terms of the criteria that might be used in this instance?

**Mr Sékaly:** First, I'd like to clarify: it's the Public Sector Accounting Board, PSAB, an independent arm of the Canadian Institute of Chartered Accountants that has put out an exposure draft and is leading the consultations. We, just like the auditor's office, as is the case for all governments and auditors across Canada, are providing input and recommendations or advice to PSAB as they develop the criteria that would determine whether an organization is within the government's reporting entity.

There is an exposure draft out. We have responded to it, asking for additional research to be done, especially in terms of ensuring that whatever is undertaken and whatever is done in terms of the reporting entity benefits transparency and benefits the taxpayers in understanding the government's financial statements. I think that's really the overarching criterion we're looking for PSAB to take a look at and to consult with the entities that may be affected, because in Ontario, if we look at the SUCH sector, there are 160 hospital corporations, 72 school boards and 24 colleges. There are a substantial number of organizations that make up the SUCH sector, and we really have to look at the cost benefit in terms of consolidating these organizations and whether it would improve accountability and transparency to the taxpayer.

**Mr Patten:** Well, there's no doubt in my mind—sorry, go ahead.

**Mr Siddall:** For example, just recently the Institute of Chartered Accountants has taken a position that school boards should be included in the recommendations of the Public Sector Accounting Board. So there would be requirements for changes in their accounting policies, where they do not capitalize their investment in tangible capital assets, which would have to be made. There would be a significant change in the requirements they have in terms of reporting their financial information.

**Mr Patten:** OK. Using that as an example, there's no question in my mind—first of all, these proposals have to be made to the government for approval.

**Mr Sékaly:** Basically, PSAB puts out final recommendations, based on the input they get, and governments look at those recommendations and in most instances try to develop an implementation schedule to meet those requirements.

**Mr Patten:** I come from an area where the government actually operates the whole board. Even before that the controls that put in the directives, the definitions of operation, even the nature of capitalization in that arrangement is pretty well controlled and dictated by the provincial government. So there's very little elbow room at all.

There's no local taxation. The taxation that used to take place locally is now picked up by the province and goes into its consolidated revenue fund, I gather. In other words, one simple definition is, would this unit survive without government funding? Of course they wouldn't; they couldn't. That's true of many of these others, and therefore there may be a role.

**1140**

Now, the role may not be, and I'm just voicing an opinion here, as intrusive as one might expect or anticipate. It may be being able to negotiate an arrangement whereby all of these boards and agencies and hospitals—they all have their own audits anyway, so presumably it would be discussions between auditors as to what kind of information you needed; not that you'd have to do it every once in a while, but you would be given the option of spot checks, presumably, from time to time, it would seem to me.

But I tell you, and this is in your area but I still have to make the point as a legislator, that it is BS—that's baloney sauce—to think the trustees out there have any power at all. It is totally controlled by the province, and the only vehicle they have if they disagree is to defy the law and not produce a balanced budget. Some of them do it because they feel they cannot make further cutbacks, so you have these so-called supervisors—“superlords,” I call them, dictators—who are now operating these three particular school boards, one in my area. I find that most distressing. That's a political decision, I understand.

But in terms of the hospitals, universities and what have you, how it is worked out, it seems to me, is the nature of the game: not whether or not it is, but of course whether or not it is will be a political decision.

**Mr Sékaly:** We'll await the final recommendations of PSAB and we'll work with the Office of the Provincial Auditor, as we always have, in terms of implementing the recommendations of PSAB so that our financial statements properly reflect accounting policies.

I just want to note that it would be more complex than just taking audits from those entities, because our budget and our financial statements are equivalent and we would have to be able to take in all that information as well as part of the budget process and report on it on a quarterly

basis, as we always do. So it is a little more complex than just spot checks on organizations.

Again, I want to stress that once PSAB has put out their final recommendations, we will work with the Office of the Provincial Auditor, as we always have, to properly reflect those recommendations in our financial statements and in our budget etc.

**Mr Patten:** I have one question related to the stranded debt. You say in here, under the stranded debt, that Finance is concerned about the risk that the stranded debt may not be recoverable from ratepayers.

**Mr Sékaly:** Actually, it's the Provincial Auditor who has expressed that concern.

**Mr Patten:** Oh, I see. OK. I'd appreciate your view, but the other question I was going to ask was, given the freeze or the cap of 3.4 and—what is it commercially?

**Mr Sékaly:** The freeze is 4.3.

**Mr Patten:** Yes, 4.3. That's not across the board, though.

**Mr Sékaly:** I'm not sure what it is for industrials.

**Mr Patten:** OK. I was going to ask you about the net impact since applying the freeze. What has that meant in terms of adding to the accumulated debt or the stranded debt?

**Mr Sékaly:** The government is reviewing those implications. The government's position is that the freeze announced over four years will, over that four-year time frame, pay for itself. We will be working, through the audit process, with the auditor's office to take a look at the defeasance model in terms of the audit of the Ontario Electricity Financial Corp as well as the public accounts and see what the implications may be on that, and we'd have to have some further discussions with the Provincial Auditor's office.

**Mr Patten:** What was the rationale that any difference would pay for itself?

**Mr Sékaly:** It's based on a projection of the price of electricity over the four-year period based on independently derived models of the price of electricity, as I understand it.

**Mr Patten:** As I recall, having read this fairly recently, if we're not the lowest jurisdiction, we must be one of the lowest jurisdictions in terms of rates of electricity, and we're in fact subsidizing the rates because of the freeze. I know it's politically attractive. People like to feel it's in control. But everything I hear from business people—one of the rationales I've received is that there's no way the private sector is going to want to get in, even on the generation side, because the rates are too low; you can't make a buck unless there's some special arrangement made, and if there's some special arrangement made, then it means the government is subsidizing the actual cost to the taxpayers over that particular period of time, and that's got to be driving up the debt. Is that a fair scenario?

**Mr Sékaly:** I couldn't comment on the motives of investors in terms of bringing new generation into Ontario. The government did provide a number of incentives in November, when this announcement was made, to in-

crease investment in terms of tax measures and also provided RST rebates to consumers to buy energy-efficient appliances. Those are all part and parcel of an overall strategy in terms of the electricity sector.

**Mr Patten:** I agree. Do you have investors knocking down your door?

**Mr Sékaly:** I'm not the person you should be asking that question to. I don't deal with investors.

**Mr Patten:** OK.

**Mr Siddall:** Only my own RSPs.

**Mr Patten:** And those aren't looking so good these days, are they?

My final question, and it perhaps comes out under the final slide, "Accounting for Tangible"—no, it doesn't, but it has been an ongoing discussion, and I asked the auditor this too, and that is the format of financial reporting by ministries. It has always been a challenge. I was on estimates a number of times, but I found it too frustrating. You spend half your time trying to figure out what this really means. I believe the auditor had recommended—and PSAB as well—a more transparent format of reporting the actual budgetary estimates and actuals.

Our committee has discussed this a number of times, and actually members on all sides have expressed concern. When you try to look at trends or comparisons, there's a shift—conveniently, it appears; that's my editorial comment—because you can't track what the heck really went on, because it's hard to compare apples with apples and oranges with oranges. Is the finance ministry—I know there have been recommendations, and perhaps the Audit Act itself might have some impact on this and the recommendations therein—at the moment looking at the nature of the format of reporting in terms of the transparencies and the ability to deal with what's what and to be able to do a better trend analysis?

**Mr Sékaly:** The first thing I'd like to note is that I did state that the estimates appropriation control is changing to the accrual basis as of April 1. Therefore, there will be a direct comparison between the estimates, which used to be on a modified cash basis, and the budget number and the public accounts number. So that will be done as of April 1. The reason it took so long is that we needed a new financial system, which we're implementing, to be able to have an accrual-based system. So that's the first one.

The other thing is, I think the auditor has noted under new PSAB initiatives that PSAB has put out a statement of principles and financial statement discussion and analysis in terms of providing supplementary information to people, with variances and trends. We are looking at that statement and we will be working with PSAB.

I don't know, Robert, if you have anything to add.

**1150**

**Mr Siddall:** In taking a new look at what's in that financial discussion and analysis that PSAB is recommending we move to, we've seen that a lot of those items they are recommending are included in the annual report of the province of Ontario. That annual report, I believe, has been out four years. Last year we moved the sum-

mary financial statements into the annual report so that it was a complete picture. So it is something we've been working on and will continue to work on with PSAB and the Provincial Auditor.

**Mr Patten:** Can I ask a question? This is just for my own education. Where would the initiative come from? I know ministries put out their own estimates and all that kind of thing, but the format for that—is Finance the chief director on this, or is it Management Board?

**Mr Sékaly:** The format for the estimates and the format for the public business plans is Management Board of Cabinet.

**Mr Patten:** OK, good. Thank you very much.

**The Vice-Chair:** That segment of 20 minutes is up. We move to the government caucus.

I'd just point out that it is five to 12. For those who require lunch, being from 12 to 1, we should take that into consideration, but we might also look at how many more rounds of questioning we have. Mr McDonald.

**Mr McDonald:** Chair, we'll pass on this round again, if the other caucus wants to continue.

**The Vice-Chair:** Is it your intent, might I ask, to have any questioning?

**Mr McDonald:** Not unless something comes up in the discussion.

**The Vice-Chair:** OK. Shall we then spend a little more time and see how it goes? We'll look at this by the time we get to 12:30 or something like that, as to whether we should break for lunch.

**Interjection:** Sure.

**The Vice-Chair:** OK.

Mr Gerretsen. The train has arrived.

**Mr John Gerretsen (Kingston and the Islands):** The train has arrived. It was only an hour and a half late, but here we are. I'm sorry; I missed some of the earlier discussion and some of the questions that may have already have been covered. I apologize if that happened.

If you've already addressed this, please just say so and I'll look at the Hansard, but I'm interested in the stranded debt of the electricity sector. If you dealt with this earlier, please just tell me so, but could you give me a little bit of background as to how exactly you dealt with this in public accounts documentation, and I may have some questions on this.

**Mr Sékaly:** In terms of the presentation and the numbers in terms of the stranded debt, this was done in concert with the Office of the Provincial Auditor as to the presentation and the verification of the numbers. The model is reviewed by the Provincial Auditor on a yearly basis as part of the public accounts process reviewing our books as well as reviewing the books of the OEFC, the Ontario Electricity Financial Corp. The Office of the Provincial Auditor is the auditor for that corporation as well, so in essence the presentation and the numbers are verified and signed off by the auditor.

**Mr Gerretsen:** Just so I understand, the \$19.4 billion was not a figure that was arrived at by your ministry; this was a figure that was given to you, in effect, by—

**Mr Patten:** The government.

**Mr Gerretsen:** Well, by the government, but more appropriately by the hydro corporations.

**Mr Sékaly:** No. I believe, and Robert can correct me, that—maybe you should take this.

**Mr Siddall:** It basically arose out of the restructuring of the companies into new companies and the decision as to how much debt those companies would be carrying and how much investment the province would be showing in those companies.

**Mr Gerretsen:** But those decisions were not made by your department; they were made either by the government or by the hydro companies. Am I correct in that? I'm just trying to find out who made the decision to put the number of \$19.4 billion on that. And, I suppose, tied into that, how were the assets of the corporation evaluated?

**Mr Sékaly:** The decision as to the division, shall I say, of the old Hydro debt into the different components was made by the government based on the equity the province has put into OPG and Hydro One. What's left over at the end is what is called the stranded debt.

**Mr Gerretsen:** Another question then. What has the government's change in electricity policy—which was the subject of the last bill that went through the provincial House just before Christmas in guaranteeing people the 4.3 cents per kilowatt hour—done to the projected paydown on the stranded debt? In other words, is the stranded debt going to be paid off by the ratepayers on a more prolonged basis than what was originally planned?

**Mr Sékaly:** As we were talking about that earlier, the model will be reviewed this year again, like in previous years, by the Office of the Provincial Auditor in terms of defeasance. The government's position is that over the four-year time frame of this 4.3-cent freeze, it will pay for itself as electricity prices come down. The actual impacts we will see in the future: this forecast is based on independent forecasts of the price of electricity going out over the next number of years. We will be discussing specific impacts with the Office of the Provincial Auditor as we go through the audit of the OEFC and the provincial public accounts.

**Mr Gerretsen:** Dealing with the issue of the special warrant and the treasury board orders—I'm looking at a chart here on page 423 which seems to indicate that up until last year, the magnitude of the treasury board orders for which I assume there was no direct legislative mandate or approval given has been increasing over the years. Does that give you any concern at all? I notice last year it was significantly lower, but when I look at 1998, for example, there's \$1.1 billion, and it had risen to \$2.1 billion by the year 2001, on page 423. Does the Ministry of Finance have any concerns about the fact that these treasury board orders are increasing in magnitude?

**Mr Sékaly:** I don't know all the details, for the past years, of what caused the different treasury board orders in terms of the magnitude. Obviously there were specific circumstances in each of those years that resulted in increases in terms of treasury board orders. I don't



believe that we have any big concern over the magnitude of treasury board orders. It varies from year to year depending on circumstances. I think we had, in some years, some major investments in the hospital sector. I think that may have accounted for some of that, as well as major investments in the post-secondary sector that had not been anticipated at the time of the voted appropriations. I don't know exactly what the composition is.

**Mr Gerretsen:** Do you have any concern at all over the fact that—well, maybe you could tell me what the previous numbers are. On page 425, the auditor stated that the write-offs that occurred in the years he dealt with amounted to “\$47.1 million for uncollectible taxes relating to retail sales tax receivables” and “\$37.7 million for uncollectible taxes relating to corporation tax receivables.” Is that a number that's increasing?

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**Mr Sékaly:** I believe those numbers actually are less than the previous year. The other thing we should remember is, as in all corporations or all companies, there are certain amounts of debt that are uncollectible. What we do have in terms of total retail sales tax—and I'm just looking up the number. For example, in 2001-02, of about \$14 billion we're talking about \$47 million. It's significant but, again, it's out of \$14 billion in one year of RST. These are outstanding amounts from a number of years ago. We have implemented tightening up of the procedures. I think there was a discussion at previous public accounts of a corporations tax, so I won't go into that because I'm not an expert anyway and I wouldn't be able to answer all your questions.

**Mr Gerretsen:** Could you explain to me and maybe the general public out there the principles that are used to determine when a tax is uncollectible. Do you allow it to run for a certain number of years and then say after year three or four, “The company is no longer in business; it doesn't have any assets,” etc? At that point in time do you write it off, or what are the general principles that you use?

**Mr Siddall:** The general principles, in terms of collecting any receivables of the government, are to do the collection of the receivables as early as possible after the invoice has been issued. Collection is much better if you try to collect it quickly. Various departments that have receivables will do a combination of dunning letters, which basically tell people they are in arrears, and hiring collection agencies to help them out in terms of collecting the information. The final process is that you have to write off the debt if the cost of further collection is deemed to be less than the benefit.

But the province has, even with written-off amounts, gone back and taken a look four or five years later to see if the circumstances of the debtor have changed and reconstituted collection efforts, if we believe there's an opportunity to get the funds that are owing to the province.

**Mr Gerretsen:** In a totally different area, education taxes, since the government now pretty well controls the entire education budget, either through the amount of real

estate taxes it's getting from the municipalities or through its allocation on an annual basis for that, the auditor comes to the conclusion that he states on page 414: “In effect the Ministry of Education now centrally manages and controls the most significant aspects of the primary and secondary education system,” from a financial viewpoint.

**Mr Patten:** Where they have supervisors, they actually do have control.

**Mr Gerretsen:** Right. In the three boards where supervisors have been appointed, you control that entirely. As a result of that, since you now control the entire funding mechanism in one way or another, with a stroke of the pen from the finance minister in determining how much should come from the property tax base or how much the government will actually contribute to that on an annual basis, do you feel that in effect the actual financial accounting that's done within each board of education should be within the mandate, the responsibility, of the Provincial Auditor?

**Mr Sékaly:** In the earlier discussion and my presentation we talked about the new PSAB exposure draft and the government reporting entity which has certain criteria for what would be in the government's reporting entity. It's an exposure draft. We've all responded to it: governments across Canada as well as auditors' offices and other interested parties. There is some clarification required and work to be done to implement the final recommendations of PSAB whenever they come forward. We've said, as in the past, that we will work with the Office of the Provincial Auditor to implement recommendations from PSAB in terms of the reporting entity and any other recommendations from PSAB in terms of the possible consolidation of organizations within the reporting entity of the government of Ontario.

**Mr Gerretsen:** One final area, then, before I turn it over to Mr Crozier, who has some questions as well, deals with the capital funding situation. The same thing can apply to the Ontario Innovation Trust fund, if I remember correctly, that basically in a lot of years, expenditures are shown—and he specifically refers to it on page 416: “I noted that \$1 billion of capital funding for hospitals was reported in the province's financial statements as health care expenditure for the year ended March 31, 2000, but in volume 1 of the Public Accounts, the \$1 billion was reported as a health care expenditure for the year ended March 31, 2001.”

I guess from a layman's viewpoint, it sounds like the moment an allocation of funding has been made toward a project etc, the public accounts regard that money as having been spent—the same thing as what happened with the innovation trust, where X number of dollars was put in the Ontario Innovation Trust and actually very little of it was spent in that year. You show it as being expensed, but the expenditure really hasn't happened yet because the actual work that's being done, I assume, is either being done in the following year or at least it's actually being paid for in the following year.

What can be done in order to deal with that situation so that we actually have a much better handle on the fact that if an expenditure is happening in a particular year, that's the year in which that expenditure will actually be shown? As he points out, that did not happen with the \$1 billion of hospital funding.

**Mr Sékaly:** Again, to restate what I said in my presentation, we booked those expenditures in accordance with PSAB recommendations and consistent with common practice in other jurisdictions in Canada. The auditor has expressed concern about that accounting treatment and has noted that PSAB, the Public Sector Accounting Board, does not deal unequivocally with this matter. PSAB has now established a task force on government transfers, which is looking into this matter. Once we have an exposure draft or recommendations from PSAB, again, we will work with the Office of the Provincial Auditor to implement these recommendations, as we have done in the past.

**Mr Gerretsen:** So basically what you're saying is that you're following PSAB rules and the PSAB rules don't deal with this situation, and, "Therefore, Provincial Auditor, you may have that opinion, but we don't agree with you."

**Mr Sékaly:** All I'm saying is that the Provincial Auditor has given us a clean bill of health, as it were, on our financial statements. We had an unqualified opinion. The booking of these expenditures was consistent with PSAB and consistent with practice in other jurisdictions. Obviously, accounting is not a black-and-white issue; there are grey issues many times, and it is an evolving field, as PSAB and other jurisdictions look at changing circumstances.

As I said, PSAB has established its task force on government transfers, which will be dealing specifically with this issue. We are providing comments to PSAB, as I am sure the Office of the Provincial Auditor is as well. We will work with the auditor's office once the recommendations from PSAB are out to see how we can deal with those recommendations in our financial statements.

**Mr Gerretsen:** OK. Mr Crozier wants to take his seat. I'll take the Chair.

**Mr Bruce Crozier (Essex):** We'll play a little bit of musical chairs.

Good morning. There was an employee who went to the payroll department of his firm and said, "I think you've underpaid me in the last pay period. Would you check that out?" which they did, and they came back to him and said, "Yes, in fact during the last pay period, we shorted you on your pay, but in this investigation we noticed that in the pay period before that, we overpaid you." The employee said, "Well, I can tolerate one mistake, but I certainly can't tolerate two."

Herein lies my dilemma, because I think we want to be fair, and when it comes to the federal tax error, I want it known—I'm a provincial member—that I'm resolutely on the side of the province. The issue is, as always, that we have one taxpayer, and we have two levels of government that are now arguing over how a mistake should

be settled. Do we have a policy in place that if we found that we had underpaid one of our transfer partners, we would simply, on discovery of that mistake, pay that transfer partner? Do we have a policy in place?

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**Mr Sékaly:** You can well imagine that our dealings with our transfer partners is based on—there are a substantial number of transfer partners in Ontario, but the transfer partners know the budget that they'll be getting from the individual ministry and the provision and the timing of the payments from the provincial ministry. So all that is known beforehand.

In terms of the federal government, it was based on estimates of tax revenue that CCRA provided, and that changes year to year depending on how well people are doing in terms of their income as well as how well people are doing in the stock market. During those years in question, people were doing very well in the stock market and so the incomes were going higher and governments across Canada were benefiting from an increase in personal income tax as well.

So I don't believe that the situations you describe are analogous in that sense. The information from CCRA, from the federal government, as we stated earlier, is audited by the federal auditor, who signs off on the veracity of that information. Obviously the federal auditors also did not know that CCRA was committing this error. I believe the error goes back quite a number of years. Jim McCarter could probably talk about that more in depth than I can, because he did go up, as part of a review of auditors across Canada with the federal auditor, to look at this error and see what could be done about it, where it started and what the implications were.

**Mr Crozier:** Would you agree that the amount that now has been audited—in other words, the Provincial Auditor's office has been involved, the Auditor General has been involved and in fact other provinces have been involved. Notwithstanding the disagreement on whether this should be paid to us or not, do you agree that at least the amount that now has been put forward, that \$1.33 billion, is a reasonable or accurate amount?

**Mr Sékaly:** I could agree that the federal auditor and the Provincial Auditor have verified the veracity of that number.

**Mr Crozier:** But you don't agree that it's accurate?

**Mr Sékaly:** No, I agree that is the accurate number as they have stated, as to the veracity of their number. Whether or not the province of Ontario owes that money to the federal government is another matter which is not in my bailiwick. As I said earlier, the province is still of the opinion that we should not be repaying this funding.

**Mr Crozier:** OK. I guess I've made my point, that when it comes down to absolute fairness, who owes who what, there is at least some significant disagreement out there at the current time. Whether it needs to be paid back or not is disagreed.

I'd like to, for a moment or two, go to the stranded debt. I have a question or two on that. You mentioned that there were some incentives back in November in this

area, one of them being of course a provincial sales tax exemption on certain energy-efficient products from the consumer standpoint. Notwithstanding the fact that with a frozen rate at 4.3, which is today, for example, being significantly subsidized, there's no incentive not to use energy. There may be incentive to buy an energy-efficient product to be exempt from tax. But what incentives, if any, that you're aware of are there for us to simply reduce our use of electricity?

**Mr Sékaly:** I'm not the expert in this field, so I'm sure there a number of energy conservation incentives apart from the RST one. We can get back to you on that. I know, from personal experience, I just bought a new washer and dryer, and they're energy-efficient ones. So that's my own personal—

**Mr Crozier:** I was asked as I was Chair—because we too just bought a new washer and dryer. I didn't recall that there were any incentives on those, but I'd better double-check that. I may be owed some money.

**Mr Sékaly:** Yes. They have to be Energy Star-rated, I believe.

**Mr Crozier:** Yes. But as a consumer and an official of the Ministry of Finance, you're not aware of any particular incentives to reduce the use of electricity, outside of the purchase of energy-efficient—

**Mr Sékaly:** I believe there are also incentives in terms of solar panels; I'm trying to recall from memory.

**Mr Crozier:** Are there? I'm trying to be informative to what little public may be watching this.

**Mr Sékaly:** I believe there are incentives in terms of solar energy systems. I think there are incentives in terms of corporate income tax for corporations which bring in energy-efficient equipment. But we can get you a full list of the measures that were announced in November, if you're interested.

**Mr Crozier:** The government's position, as you mentioned earlier this morning, was that the subsidy would pay for itself over the four-year period in which it has been announced, and yet the experience from November 1 until now would indicate that the subsidy is at least as much as the government might have anticipated or even greater. Can you advise me as to where we are today, four months into this, and whether your expectations are being met or not?

**Mr Sékaly:** I think Ontario has been blessed by two events over the last little while: the hottest summer and probably the coldest winter. So that obviously has an impact. But we believe that over the four-and-a-half-year period of this freeze the plan will pay for itself. I don't have any further details at this point in time, but that will all be part of the public accounts.

**Mr Crozier:** Was the Ministry of Finance involved in this plan, this estimate, prior to the rate stability being announced?

**Mr Sékaly:** As in many other issues, the Ministry of Finance is involved in many things, including this one.

**Mr Crozier:** What you're saying, though, is that notwithstanding the fact you were involved in it, you're not

sure how we're doing on that; whether we're ahead, behind or even?

**Mr Sékaly:** It's not in my area, in terms of immediate knowledge, so I don't have a tally of where we are at this point in time.

**Mr Crozier:** Were you involved in the original planning for this rate stability?

**Mr Sékaly:** I've been involved in many different things, in parts of this not—so yes, I have been involved in parts of this rate stability.

**Mr Crozier:** So you were involved in the planning, but you're not involved in determining whether it's working or not?

**Mr Sékaly:** There are other people within the Ministry of Finance who are dealing with this issue.

**Mr Crozier:** I don't mind if you just say you don't have the information here today.

**Mr Sékaly:** I don't.

**Mr Crozier:** That's the way it goes sometimes on these questionings, so that's OK with me.

I'll just look quickly to see if—in order to assist the committee on getting to the point that we want in today's deliberations—the auditor's report, on page 413, says, “In Ontario, SUCH-sector”—that's schools, universities, colleges and hospitals—“organizations are not included in the reporting entity because they are not considered to have met PSAB's inclusion criteria of accountability and ownership or control.”

Just to refresh my memory while I was in the chair, that's a decision, then, that is made by the Ministry of Finance?

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**Mr Sékaly:** No. PSAB is an independent body and it's arm's length of all governments. It's part of the Canadian Institute of Chartered Accountants. They put out recommendations on how governments should be reporting certain things. They do have a task force right now on the government reporting entity where they are proposing to change the criteria, which are right now accountability, ownership and control, to one criterion, being control, as I stated in my presentation.

The application of PSAB guidelines is done by the government in consultation with the Office of the Provincial Auditor. We will be, once we have the new guidelines, as it were, from PSAB in terms of the reporting entity, reviewing those implications on the government's reporting entity with the Office of the Provincial Auditor to determine what the next steps are in terms of the province.

**Mr Crozier:** I just wanted to make clear that when the auditor says they are not considered to have met these standards, you're saying it's the auditor and the Ministry of Finance who determine that since they haven't met the standards, they're not included.

**Mr Sékaly:** That's correct.

**Mr Crozier:** OK. The auditor's report goes on to say, “If such agencies were included in the government's financial statements, it would have a significant impact on the province's reported financial position and its

operating results.” Could you give me some idea of what that impact would be?

**Mr Sékaly:** It’s very hard to tell. There are, as I said, 160 hospital corporations, 72 school boards, 24 colleges, and I don’t remember how many universities—about 30 universities. So I really do not know what the impact would be of consolidating that many organizations into the government’s reporting entity.

**Mr Siddall:** The impact would not be just on the revenues and expenditures of the province, but also on the province’s investment in tangible capital assets and the debt that’s in those sectors as well. So the impact is equally as much on the balance sheet or the statement of financial position of the province as it would be on the statement of revenue and expenditures.

**Mr Crozier:** So in just a general way, could I conclude from this that the impact would be significant? Whether it would be positive or negative, you’re not sure today, nor am I, nor is anyone else, perhaps. But notwithstanding that, do you think it would be significant, that the reporting would mean more to the people of the province of Ontario in a significant way?

**Mr Sékaly:** One of the issues that we talked about in the presentation is whether such consolidation provides more transparency for the users of financial information, be it the taxpayer. Does this help in terms of accountability and reporting or not? I think that’s one of the key issues that PSAB should look at: whether a consolidation of that many organizations in the government’s financial statements leads to better reporting, better accountability.

**Mr Siddall:** The impact might be significant on revenues and expenditures and insignificant in terms of the surplus or deficit. That’s one of our concerns, that this exercise will take a lot of time and effort but that the impact on the surplus might be immaterial.

**Mr Crozier:** That raises an interesting point. I’m all for having the SUCH sector brought in and as much reported on and reviewed by the Provincial Auditor as possible. In fact, I’m very much in support of my colleague’s Bill 5 on this very issue. Notwithstanding the fact that it may or may not be significant, I just happen to think that it’s the right thing to do.

When you review the auditor’s report, which I assume you do, in fact you may sit down and have some discussions with the auditor’s staff prior to the issuance of the report. For example, on page 414 it says, “In effect, the Ministry of Education now centrally manages and controls the most significant aspects of the primary and secondary education system.” Does a statement like that kind of pop out at you, and do you discuss the significance of a statement like that with the auditor, or do you just simply let that be the auditor’s opinion?

**Mr Sékaly:** In terms of the discussions with the auditor, there are discussions as to the annual report. There are some things that are the auditor’s opinion, and that’s the auditor’s opinion so we leave it at that. The clarification of facts is basically what we discuss with the auditor’s staff.

**Mr Gerretsen:** I just have one further question. I wonder if I could just—

**The Vice-Chair:** Sure.

**Mr Gerretsen:** Thanks.

It deals with the stranded debt situation. I’m just trying to get my head around this and I’m just reading from page 419 of the auditor’s report, where he states, “The financial performance of Hydro’s successor companies for the fiscal year ended March 31, 2002 was well below expectations. The government expected its two wholly owned Hydro successor companies”—that’s OPG and Hydro One—“to earn \$524 million during that fiscal year; instead, the two corporations” earned only \$179 million, leaving “a shortfall of \$345 million.” So there was only \$179 million that was actually earned.

He then goes on to say, “The \$179-million earnings ... were insufficient to offset the government’s \$520-million annual interest charge on debt issued for its \$8.9-billion investment” in the two corporations. And this is the relevant part: “It should be noted that, under the recovery plan, only amounts earned by the two successor companies above the \$520 million are set aside for stranded debt recovery. Accordingly,” since “none of the \$179 million in earnings is available to reduce the stranded debt,” the result is that “\$341 million was absorbed by Ontario’s taxpayers”—not ratepayers, but taxpayers.

His concern is, “Since the government is responsible for the stranded debt, if its plan to recover the stranded debt through ratepayers fails, the taxpayer will ultimately be responsible for that debt.”

The question he has is this, according to this statement on page 419: “If the plan can no longer be supported, the government should recognize this debt on its financial statements as recoverable from the taxpayers.”

So the question is, why aren’t you doing this?

**Mr Sékaly:** As I stated earlier, through the public accounts process and the audit of both the government’s financial statements as well as the audit of the OEFC’s financial statements, the auditor audits the feaseance model that is put in place in terms of dealing with the stranded debt. We have discussions with the auditor in terms of dealing with that. Up to this point, the feaseance model has been sufficient to state that it would be recovered from ratepayers and not taxpayers. We will be going through the same kind of audit this year with the Office of the Provincial Auditor and, in having those discussions, we believe that the feaseance model is still viable and is such that the stranded debt will be recovered from ratepayers and not taxpayers. But, again, we will be going through this audit with the auditor.

**Mr Gerretsen:** But let’s assume that this year the same thing has happened as last year. After how many years of this happening will you actually say, yes, there’s something wrong here, and in effect the taxpayers are being hit rather than the ratepayers, and therefore we should be showing this as an additional taxpayers’ debt rather than ratepayers’ debt?

**Mr Sékaly:** I don’t wish to hypothesize on what may or may not be. We will be going through the audit as we always do, with the Office of the Provincial Auditor, and we will be dealing with these issues as we go through that audit.

**Mr Gerretsen:** Thank you. That's all I have.

**The Vice-Chair:** Any further questions? Well, you've done well. We're going to get out of here before the afternoon. We want to thank you and your staff for coming today and we appreciate the time we've spent with you.

That would appear to conclude the business of the standing committee today. I remind you that we will be meeting at 9:30 on Thursday morning to discuss the auditor's report with regard to long-term care. This committee stands adjourned.

*The committee adjourned at 1229.*





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