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Mercredi 28 avril 2010

Standing Committee on Public Accounts

2009 Annual Report, Auditor General: Ministry of Finance

Comité permanent des comptes publics

Rapport annuel 2009, Vérificateur général : Ministère des Finances

Chair: Norman W. Sterling
Clerk: Katch Koch

Président : Norman W. Sterling
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 28 April 2010

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The committee met at 1232 in committee room 1, following a closed session.

2009 ANNUAL REPORT, AUDITOR GENERAL

MINISTRY OF FINANCE

Consideration of chapter 2, unspent grants.

The Chair (Mr. Norman W. Sterling): Good afternoon. My name is Norm Sterling, Chair of the public accounts committee. Today, we are going to consider part of the Auditor General's report, that being chapter 2, dealing with unspent grants. We have today with us Peter Wallace, the deputy minister of the Ministry of Finance, and some other officials with him as well, whom I hope he will introduce when he is going to give some opening remarks.

Mr. Wallace, I'd ask you to proceed. Thank you very much for coming.

Mr. Peter Wallace: It's my pleasure to be here. Thank you for the opportunity to appear.

I am Peter Wallace. I am the deputy of finance and secretary to treasury board for the government of Ontario. I just wanted to make it very clear that I've been given exceptional consideration by the committee. I was forced to cancel my appearance last week due to a family emergency, and I very much appreciate your consideration in the rescheduling. That was very helpful to me and is very, very much appreciated.

I will go through some opening remarks and then, of course, I'd be pleased to respond to questions from the committee on chapter 2 of the AG's report.

The Chair (Mr. Norman W. Sterling): Before you do that, Deputy, you may have noted that all of the committee have removed their jackets because it is quite warm in here. If any of you feel so inclined, do so. We only have one stuffy member, Mr. Zimmer, who insists on keeping his jacket on.

Interjections.

Mr. Peter Wallace: Absolutely. I appreciate that.

Mrs. Liz Sandals: This room's almost as bad as the treasury board.

Mr. Peter Wallace: It's not as bad as treasury board. Treasury board remains legendarily bad.

Let me introduce my now jacketless colleagues: Bruce Bennett, who is the provincial controller and ADM for the provincial controller division, obviously; and Bill Hughes is an assistant deputy minister for the infrastructure policy and planning division of the Ministry of Energy and Infrastructure. I also have to support me Sriram Subrahmanyan, who is the assistant deputy minister for the provincial local finance division of the Ministry of Finance; and Greg Orencsak, who is the assistant deputy minister for the fiscal strategy and coordination division of the Ministry of Finance.

I understand that you're primarily interested in the infrastructure investments, stimulus investments, and how they're treated in public accounts, so I'll focus my opening remarks on that.

The public accounts, as you know, are a key component in the province's financial reporting cycle, which starts with the spring budget, includes the quarterly reports on the public finances and also includes the fall economic statement and our fiscal report. The consolidated financial statements are prepared in compliance with legislation and in accordance with generally accepted accounting principles, or GAAP, as they relate to governments in Canada. Each year, the Auditor General provides an audit of the province's public accounts and expresses an opinion on whether or not the consolidated financial statements represent fairly, in all material respects, the financial position of the province and the results of its operations in accordance with Canadian GAAP. For the past number of years, I am genuinely pleased to say that the Auditor General has expressed a clean opinion each year on the province's financial statements.

I will now shift to the issue of accounting for infrastructure investments. In recent years, the province has been making significant investments to build and upgrade infrastructure in communities across Ontario. That has included very significant expenditures on roads and bridges, public transit, social housing, hospitals, schools, post-secondary, cultural and recreation facilities, water and waste water infrastructures, and a whole variety of other critically important economic underpinnings. In the 2009 budget, the government responded to the global economic recession with a very significant infrastructure emphasis and package, and that was done not exclusively but largely in conjunction with the government of Canada. The government, as it reports on its progress relative to the infrastructure, accounts for the infrastructure investments under these programs in accordance with GAAP and that part of GAAP that relates to the Public Sector Accounting Board, or PSAB, standards.

Consistent with the PSAB standards, Ontario's infrastructure investments to recipients outside of the province's consolidated financial reporting entity are recorded as expensed in conjunction with certain criteria that are established under GAAP and PSAB. There is a spending authority for the grants. The grants have been approved by the government or elected or appointed officials with the delegated authority to approve those grants. The grants have been communicated to the recipients, and any conditions or eligibility criteria that are associated with that grant have been satisfied by the recipients. Grants are, in this context, one-time transfers that are made at the discretion of the governments. They could be made at any time of the year. If they're made toward the end of the year, they're often referred to as year-end transfers. Whether a grant is made in the first quarter or the last quarter of the fiscal year, the accounting remains absolutely the same. So there may be a policy distinction, but there's no accounting distinction in terms of the timing.

Year-end investments have been a subject of considerable interest in the past, and the government has taken a number of steps to improve accountability associated with those. In particular, after an extensive period of consultation with the Auditor General, in 2007 the province did put in place a number of revised requirements for one-time transfers to enhance accountabilities for these expenditures. So the primary elements that were put in place in 2007 include: specification of the purposes for which funds are to be used and the nature of the eligible expenditures; periodic reporting on the use of the transfer funds, the service deliverables and the outcomes achieved; the right to an independent verification and audit of the information submitted by the grant recipient; and a right to determine that the funds were used for the purposes intended; and finally, of critical importance, there's a right to recover the funds if they're not used, or will not be used, for the intended purposes.

These improved accountability provisions strengthen the province's assurances that any public monies, including these public monies, are spent wisely. In strengthening this assurance, there are a number of important factors to consider. These include: Are they used for the purpose specified, are they cost-effective, and are they achieving an appropriate public policy objective? Obviously, there's a frequent need to balance—this is public policy; it remains a difficult and challenging area—these considerations to ensure overall value for money and ensure that any dollars spent are consistent with a broader definition of the public interest.

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As always in these situations, there is a lag. There can be a lag between the transfer of money to a recipient and the period in which the recipient actually spends the money. Recipients may have requested money at a specific point in time, but oftentimes the projects for which the money is dedicated will take a little bit of time to come to fruition. They may need some time to ensure that financing is lined up, project plans and approvals are completed, long-lead-time materials and any other contracts are ordered and put in place, construction is appropriately tendered and contracted, and of course there may also be delays or scheduling issues associated with simply the effective management of the specific project. That all relates to the general accountability provisions associated with transfers of grants.

There are specific grants that have been undertaken since the 2009 budget relating to stimulus. The government has produced a record level of stimulus into the Ontario economy in the 2010 fiscal year that is forecasted to be even higher over the course of the fiscal 2010-11 fiscal year.

The Conference Board of Canada has recently looked at this and determined that these investments are in fact creating a significant number of jobs and having a significant economic footprint. Obviously, as you know, they're a critical part of the extension of the government's ReNew Ontario plan, which was completed in 2008-09. The current round of infrastructure and stimulus spending are about 5,400 stimulus projects that are approved and are expected to be completed by the end of March 2011. All project applications are reviewed against criteria, including construction readiness, project merit and environmental assessments, to meet the economic stimulus objectives. An important consideration obviously was that they be shovel-ready or close to the point where they can be undertaken, and critically within that construct we expect the projects to be fully completed by the end of March 2011.

Of critical importance to me, as Deputy Minister of Finance, is that this work is being undertaken in very close connection with the government of Canada, and we continue to work closely with our colleagues at the federal treasury board and other agencies to ensure that accountability provisions are consistent across governments, simple and reasonable to administer for grant recipients, but that they provide the critical and appropriate support and respect for taxpayer dollars.

In terms of the specific accountability mechanisms, I'll just go through them very quickly. They include public disclosure of program guidelines, periodic reporting by recipients, right to independent verification and a website posting that allows Ontarians to actually track the progress of individual projects. So, again, what you're seeing is a consistent application of policy as it relates to ordinary grant transfers and as it relates to stimulus as well.

In terms of investing in Ontario infrastructure grants—another issue raised in chapter 2, and I'll spend just a moment on it: The Investing in Ontario Act was introduced in the March 2008 provincial budget with the allocation of funding among municipalities in proportion to their population. That aspect of it was announced and confirmed in August 2008. The initiative was informed by the Provincial-Municipal Fiscal and Service Delivery Review and came out of extensive consultations with municipalities in that context, and those consultations identified a number of consensus recommendations. The report itself recognized that municipalities need to increase their investment in municipal infrastructure and they needed to do that in partnership with other levels of government.

The total funds allocated through the Investing in Ontario Act were $1.1 billion, and they were divided among municipalities in the way I described earlier to allow the municipalities to meet the infrastructure priorities that they had identified.

As of March 31, 2010, which I believe is the most recent data we have available, half of the spending had already been spent on municipal capital priorities, and of course that's going to run in the range from roads and bridges, social housing, firefighting equipment, any of the other aspects the municipalities would see as critical priorities.

They have also been able to use their Investing in Ontario Act resources to support the municipal contributions that are required as part of the federal and provincial infrastructure program designed to offset the impact of the recent economic recession. The act itself allows the government and the mechanics of the act—I believe you've been briefed on this by Jim McCarter. The mechanics of the act allow the government to take a share of unanticipated year-end surpluses and allocate them to provincial priority need. In 2008, that priority need was identified as municipal use and investment in infrastructure. The accounting for grants is consistent with PSAB, or Public Sector Accounting Board, standards.

I'll just sum up very quickly now. With the impact of the recession, the province has not recorded a surplus since the 2007-08 fiscal year. The result of the recession has been a very significant deficit in 2008-09 and a further augmentation of that deficit in the 2009-10 and 2010-11 fiscal years.

It's clear that the Ontario economy has stabilized. Recovery is very much taking shape. The recovery remains moderate and there are some risks, but we are seeing very strong signs of recovery, including some very significant increases in GDP over the last several months.

In the 2010 budget, revenues are approximately 12% below their level of two years ago. The primary driver of the deficit has been the reduction in tax revenue. As you have had an opportunity to read in the province's 2010 budget, there is a recovery plan in place that will see the government balance in an appropriate period of time.

I'm going to end my formal remarks there and look forward to questions from the committee that we will try to answer. Thank you.

The Chair (Mr. Norman W. Sterling): We normally give the NDP the first crack, but since they're not here, are you ready to go, Mr. Shurman?

Mr. Peter Shurman: Thank you, Deputy Minister. It's interesting listening to you. I have absolutely no doubt that you understand absolutely everything you told us. I'm just a simple MPP, a reasonably bright guy, but I'm not an accountant. I am a former businessman and I do know how to read a profit-and-loss statement, and they don't look the same in business as they do in government. In business—I'm not being instructional to you because you know this as well as I do—I expense things when the bills come in and I write the cheque. What you're telling us, and what we know to be the case, is that things are expensed at the provincial level oftentimes long before monies are spent, because monies apparently are considered as spent when the transfer is effected—let's say, in an example case, to a municipality. Would that be correct?

Mr. Peter Wallace: It's unfortunately not an easy yes-or-no answer.

Mr. Peter Shurman: I know. That's why I'm going there.

Mr. Peter Wallace: If I can take a step back, I may look to the Auditor General to help elucidate or correct any errors I make. I've worked for the province since 1981, and for the majority of that period the province actually operated on a cash, and then a modified cash, basis. In the early to mid-1990s, the province, in conjunction with other provinces, transferred into an accrual accounting structure consistent with the recommendations and directions and policy parameters set by the Public Sector Accounting and Auditing Board, now changed to PSAB with only one "A."

The result of that has been a series of financial and accounting rules that are consistent with GAAP but recognize the unique provisions of governments and the unique role and financial aspects in which governments perform. So you are absolutely right that there is a series of distinct and vitally important differences between the way in which governments account for their finances and the way in which the private sector accounts for their finances. Much of that is driven by the different standard-setting bodies. They are all under the broader purview of the CICA; they all link into the accounting standards and oversights committee that exists at the national level. Those overall governance organizations have recognized the difference between accounting for business expenditures and accounting for public expenditures and have, in fact, put in place mechanisms and balance sheet descriptions and a variety of other things that reflect those differences.

So a certain amount of what you're seeing is just simply the result of the underlying accounting standards and the underlying difference associated with them that reflects, essentially, the principal differences between organizations that run for profit and organizations that run to deliver public services.

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Mr. Peter Shurman: I think everybody understands that. I think we also understand the underlying principles in why PSAB set these objectives up in the way that they did, or at least these rules, let's call them, in the way that they did. Our job as MPPs is to go out and explain, very simply, to people whose money we're talking about where it is at any given point in time. That's a little bit harder.

You've talked about measures that you've implemented that demonstrate a degree of, in your words, accountability and transparency. Again, I don't doubt your words. Where the gap lies here between you and I is that I have to translate that somehow into something that's simple for people who are saying, "Well, where is this money? They said that they were going to do whatever project in my municipality." Maybe that money is in a bank account—probably it is—that belongs to the municipality and maybe it could stay there for years, yet it was spent, insofar as the provincial accounts are concerned, last year. Yes?

Mr. Peter Wallace: Absolutely. And unfortunately, the clarion call to make it simple will be where there will always remain a gap, because I will be unable to make it simple. The reason I'm unable to make it simple is because I can't make it simple in the private sector example either.

In the treatment of expenses—and I'm not an expert on private sector accounting, but my understanding is that the basic underlying rules for expensing remain very similar, in terms of the gap, as it relates to private and public sector accounting. When the decision-making body has determined that the expenditure is made, the appropriate accrual is recorded, or when the expenditure is inevitable or the cost is incurred. For example, in a writeoff, in many respects the private sector will account for a writeoff or take an accrual or make an accounting adjustment or book the relevant change even though the transaction may take place at a somewhat later time.

In this case, there is actually a very direct correlation between the transaction, the cash flow and the accounting. What actually happens in a practical sense is that the government makes the decision, whether it's at year-end or at any other point in the fiscal year. The decision is made to make an expenditure. Once that decision is made, it's my obligation and the controller's obligation to ensure that that is appropriately expensed during the time period in which the expenditure is made. So if the government decides to transfer $500, we account for the transfer of that $500 because it is out of the control of the government of Ontario's hands. That's how the decision is made.

I realize—

Mr. Peter Shurman: If I could just stop you there to try to broaden this a little bit: I think I'm understanding what you're saying, and I think the difference would be, if I were buying a machine in the private sector and that machine cost $1 million, when the machine is delivered and I write the cheque for the $1 million, I book it and it shows up in my P&L. That's it. It's pretty simple. If the machine has some life, there may be an accounting principle that utilizes a writeoff over a period of some finite number of years.

In your world, if you allocate funds to some agency, organization, university, city or whatever to buy that same machine for $1 million and that money goes out the door—and very particularly in the last quarter, let's say, of a fiscal year—but the machine is not bought until next year, sometimes the year after or sometimes never bought, that $1 million is still booked right then in the fiscal year when it went out the door. That's the difference, I think. Am I understanding this correctly?

Mr. Peter Wallace: You're right, but I need to come back to a couple of the critical points of the example itself. You're right that what PSAB and GAAP require us to account for is the transaction as it reflects on the government of Ontario. So the government of Ontario has spent the money. We have to record the transaction at the time at which the government has made the decision to spend the money.

Your example talked about if the funds were never spent or if the machine was never bought. In that case, and the reason I went through those—and I apologize for the denseness of my early remarks—is to give members of the committee some assurance that if the money is not used for the purposes for which it is intended, the government continues to have control mechanisms by which it can retract that money from the grant recipient, which is a little bit different than a private sector treatment. While we account for the money in a GAAP sense and in a PSAB sense at the point of the transaction and the point of decision, we do not rid ourselves of all accountability for that. That remains public money. The Ministry of Finance or whatever ministry is responsible for the grant will continue to monitor and hopefully ensure that the money is spent as required and, if it's not, then take the appropriate steps to either bring it into compliance or recover the funds.

I'm just going to pause and look to Bruce Bennett, the provincial controller, and make sure I have that factually correct.

Mr. Bruce Bennett: Yes; in simple terms, the deputy has it correct. The only thing that I would add is: The major distinction between private sector and the public sector in the example that you used was, in the private sector they have what's called an exchange transaction which occurs. In other words, you're providing funds for a service that's been delivered or a good that's been procured, and so it's recognized at the time that the exchange transaction is finalized. In the case of the public sector, we are providing grants, so it's not an exchange transaction; it's a one-sided transaction, where the government is providing grants to an agency or another municipality, in which case, the way the accounting works—which is unique, you're right, for government—because there's no exchange occurring, there are specific rules that tell you when you recognize it, and it's basically recognized at the time that the government decision is made to provide that grant. At that time, it is booked on our books, and there is often a lag, as the deputy said in his opening remarks, between the time the grant is provided and the cash flows to the recipient and the recipient uses it for the intended purpose. That's why, in the government case, we've added and strengthened the accountability mechanisms so that we can track and monitor the use of the funds to ensure they were being used by the recipient in accordance with the requested purpose and the intent of the grant.

Mr. Peter Shurman: The explanations you provided are a lot more clarity for me 10 minutes into this thing. I think at this point what I'd say is, if I were speaking for the public that I represent, there's a Y in the road and there are two directions that I'd like to follow. One is a short and simple question, and the other road goes to accountability.

The short and simple question is for all of you. Wouldn't you believe that the public that doesn't do your job every day—or, for that matter, my job every day—would say that there appears to be a bit of an element of deception in final quarter expenditures? In other words, we've all heard that expression, "Let's get the bucks out the door. Let's do that." Right now the government of the day is Liberal, but governments over time have gotten money out the door at the end of the year because, "Hey, we have this budgeted. Let's make sure that we move it." Then the accountability comes in. So let me just make that question simple again: Isn't there perceptibly an element of deception in getting the bucks out the door in the last days?

Mr. Peter Wallace: I'm going to try to answer the question as directly as I can. A lot of the "get the money out the door" issues related, in my view, historically, to a cash basis of accounting in which, on a cash budget, you would end up with a certain amount of resource at the end of the year and "use it or lose it," and you'd be tempted to go off and buy furniture or lunch or something else just to reduce the cash balance and fix that problem. I think governments have made a huge amount of effort over the past 15 or so years to work against that, and I think we've been increasingly successful. I think the adoption of PSAB and accrual accounting have greatly reduced that incentive, and there's a much more stringent set of accountability measures at the provincial level, at the federal level and, I would hope, at the municipal level that would greatly reduce that temptation. So I think in terms of much of the historic kind of "use it or lose it," which I think drives a lot of potentially very bad behaviour, we have been able to offset that.

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In terms of the broader nature of the question, the controller's function within the Ministry of Finance, in conjunction with our partner ministries, including the Ministry of Energy and Infrastructure, try very, very hard to ensure that government policy intent is captured and fairly represented in the underlying budget and then, critically importantly, the underlying financial statements representing the financial position of the government of Ontario. We obviously believe, and the Auditor General has obviously confirmed through the "clean" opinions on the public accounts, that they represent, in all material respects, a fair representation of the underlying financial condition of the province. As the deputy of finance, I obviously provide advice to the government of the day. You're right: We have had many governments of the day. I provide advice that's consistent with fair and disclosive treatment of the financial position of any government.

Mr. Peter Shurman: Let's just take a couple of minutes and hit accountability, which I'm sure my colleagues here will want to talk about as well.

You've talked about a number of measures that have been introduced, particularly over the last recent period of several years—websites and so forth where you can track infrastructure investments and so forth. That's all well and good. Can you tell me, if I ask you, today or relatively easily and in a short period of time, how much total infrastructure funding, for example, is out there at this point, and, percentage-wise, how much has been spent? Can you make that statement right now in terms of accountability?

Mr. Peter Wallace: I'm going to look to my colleague from the Ministry of Energy and Infrastructure to offer some direction on that.

Mr. Bill Hughes: I would say a couple of things in response to that question. If you asked me today exactly how much infrastructure has been spent so far this year in 2010-11 on a rolled-up basis—what's the total amount spent so far—no, I can't answer that question because, the way reporting works at the government level, we ask ministries to report quarterly through treasury board. After the first quarter has rolled by, then, yes, I would be able to answer that question, and again at the end of the second quarter. However—

Mr. Peter Shurman: What about if I asked you about 2009?

Mr. Bill Hughes: Absolutely; for 2009 we published it. So it was $12.9 billion.

Mr. Peter Shurman: Twelve point nine billion. Can you say, out of the $12.9 billion, what percentage that you know for a fact has been spent, and particularly on the projects that were envisioned?

Mr. Bill Hughes: All of it.

Mr. Peter Shurman: All of it has been spent and reported upon?

Mr. Bill Hughes: Let's see: 2009-10—

The Chair (Mr. Norman W. Sterling): When he says "spent," I don't think he's talking about on your books; I think he's talking about on projects.

Mr. Peter Shurman: The projects.

Mr. Bill Hughes: Oh, I see. Okay. Sorry. Let me give you a practical example. We gave the city of Hamilton $100 million for their Woodward Avenue sewage treatment plant, I think it was. That money has not yet been spent, but it will be. There's a contribution agreement. So if you're asking me, "Is there a portion of the money in 2009-10 that has yet to be spent because we've transferred it to our municipalities or others?" then the answer to that is yes.

Mr. Peter Shurman: Do you know the percentage? Because I think one of the focal points that we're looking at here today, and what the auditor's report talks about, is money. We're talking about hundreds of millions of dollars—indeed, it could be billions—that are sitting in accounts here, there and everywhere—I don't mean that we don't know where it is, but here, there and everywhere—that on your books has been expended, but on somebody else's books is sitting there as a balance to be spent and, further, in the auditor's report, ultimately, could even have been, in past times, spent on other projects or used, in one case, as a municipal contribution to a one-third, one-third, one-third infrastructure project where, really, that wasn't municipal money at all; it was provincial money seconded to a municipality for some other purpose. That's where we're going with this. So your comments on that would be useful.

Mr. Bill Hughes: There are accountability measures in place now that are quite robust that allow us to ensure that money intended for a specific project is spent for that purpose, and if it's not spent for that purpose, then we can retrieve the money.

You're right that, in times past, as the deputy was saying, when we lived in a cash world and before the Auditor General's report in 2007, which led to a strengthening in the accountability provisions around these types of grants, it's possible that we would not have been able to track how the money was spent exactly. That doesn't mean the money wasn't spent properly; it just means we don't have a record of how it was spent. Now, though, we do. So, for example, for all of the grants that the Auditor General mentioned in his report, we are getting reports over time. There are different reporting regimes associated with each type of grant, but we're getting reports over time that show us, first of all, how the money has been spent, and secondly, how much has been spent so far in most cases. That risk has essentially been managed away.

Mr. Peter Shurman: What kind of a time frame are you looking at in terms of your expectation? You allocate the funds, they're recorded as "spent" on your books, and they go into Hamilton's accounts for the sewage treatment plant, for example, or any other city, agency, university, whatever it happens to be. Over what period of time do you expect to see action? And relate that period of time to the ability that you point out you have now to recoup.

Mr. Bill Hughes: Let me give a slightly different example to try and drive it home. As the deputy was saying in his opening remarks, it does sometimes take time for these grants to roll out. In the Auditor General's report, he mentioned $200 million given to universities as a year-end investment in 2007-08. We're now a couple of years later, and the question, how much of that money has been spent? The answer to that is: 76%. What I would add to that is that six months before that, an additional $200 million was given to universities and colleges for essentially the same sort of purpose through the fall economic statement, so you might ask the question, "How much of that has been spent?" The answer to that question is 96%. So you can see, as time rolls on, these monies do get spent. It does take institutions—

Mr. Peter Shurman: I don't doubt that for a minute; I'm just wondering where you start to push the buttons. By that I mean, when do you say, "Hey, this isn't moving in a time frame that we had imagined"? I don't know what that time frame is; I'm looking to you to inform me as to what it is. When you talk about the ability to recoup monies that are unspent, at what point does that button get pushed? When do we get the money back if it's not being used for what it was intended for or if it's not being used at all?

Mr. Bill Hughes: I would have to answer that in different ways for different programs. It's program-specific.

Mr. Peter Shurman: Give us some examples.

Mr. Bill Hughes: I will. I'll give you the worst examples first. How about that?

Mr. Peter Shurman: Sounds great.

Mr. Bill Hughes: Two programs: The municipal infrastructure investment initiative was a $450-million program. That program requires that municipalities report every year, at the end of the fiscal year, on how they're doing with their infrastructure projects. What it doesn't do is require that they report how much they've spent so far or a specific time frame. So if we were doing that one again, we would probably ask for that kind of information. But the fact of the matter is that we know that about half of those projects are already fully complete and some portion of the remainder are already fully complete, but they haven't been reported on. I can read you examples, except it would probably be boring, from my notes that give examples where 90% or 95% of a project has been spent under that program but they haven't reported any dollars because it's not 100% spent. The difficulty with that program is that you don't get reporting until you've got 100% spending.

I'll give you another example. Municipal roads and bridges: another one identified by the Auditor General in his report. That was $400 million for municipal roads and bridges. On that one, we have, so far, 78 reports in from municipalities. There were 442 municipalities given money under that program; we have 78 reports in so far. Of those 78 reports, the municipalities are all reporting that they've spent all the money. The issue there—and if we were doing this one again, our Minister of Transportation would probably do it a bit differently—is that they don't have to report until they've spent the money. They do have to report, but not until they've spent the money.

Those are the most difficult of the examples that I can offer. Others, though: We have annual reporting where they have to report the amount they've spent, so social housing, another one identified by the Auditor General—$100 million. That one is well over 90% spent; I think it's 93%. That one, they report annually, and we get expenditure information. So it varies by program.

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Mr. Peter Shurman: Thank you. Let me ask the deputy minister this question: Given what the auditor's report demonstrated, which has resulted in us holding this hearing, would you say that if he were to go at it again and report again, you have plugged the holes that were isolated in that report with the measures you have set out before us today?

Mr. Peter Wallace: I want to give a bifurcated answer, and I need to seek one—

Mr. Peter Shurman: A what?

Mr. Peter Wallace: I want to go down two roads on this.

Mr. Peter Shurman: Good.

Mr. Peter Wallace: I need to confirm what the question you're talking about is relative to. When you say "the auditor's report," you're not referring to the 2008 report or the report released in December 2009; you're referring to the earlier reports.

Mr. Peter Shurman: That's correct. I want to know, if we were to do this for 2010, whether we would find the same types of things.

Mr. Peter Wallace: My understanding is that we have put in place and rigorously enforced with ministries, and the ministries have enforced with transfer payment agencies, the appropriate accountability criteria. So, yes, there is a full expectation that a review audit would be a clean audit in terms of those transactions.

Mr. Peter Shurman: Thank you very much. Sir?

Mr. Bill Hughes: A key change is the introduction of a public, Internet-based reporting site for all the infrastructure stimulus projects—that's over 5,000 projects. You can go and look at the ones in your neighbourhood—anybody can go and look at the ones in their neighbourhood and see how they're doing.

Mr. Peter Wallace: The second area I wanted to explore is slightly different, and it relates back to the original question you asked about the difference between private and public sector accounting and the need for simplicity. We have been unable to bring simplicity and clarity to this, because it's not simple or clear and relates, as all these things do, to the intricacies of accounting.

But there is a parallel between the private and public treatment of significant expenditures. In the private sector, using the business analogy of a machine, when we transfer money, we are sometimes effectively buying a machine or providing the resources to a transfer payment agent to buy a machine. That machine is oftentimes paid for with warranty provisions and other things that require it to work and get our money back if it doesn't work. But the machine may oftentimes be expensed years before it is actually fully operational or provides the economic benefit the company has purchased. There's a parallel here with a public expense, where we're providing an agency with the capacity to buy a machine, a road or a bridge, knowing that the full benefit of that will not be realized for some period of time.

I believe that to be an economic and an accounting parallel between a private sector transaction, where a major capital investment—whether it's in a building or a complex piece of machinery—may take a considerable period of time before it comes to fruition, and for which there is oftentimes a very long recovery period. The contact will provide a very long recovery period in which, if the money is not spent appropriately or there is a warranty failure or something like that, there is recourse. I think this is an analogy between where we've provided the money, made the expense and accounted for the expense appropriately, but continue to have both a lag in delivery of the service but also an ongoing accountability mechanism. I look to Bruce to confirm that that analogy is broadly correct.

Mr. Bruce Bennett: I think that is correct in the sense that we are primarily providing investments for capital and capital infrastructure, and the service benefit to the public, if you want to look at that, goes over a very, very long period of time. So when the government is making this investment, it isn't doing it directly, like a private sector business would; it's giving it to agencies, municipalities or others who are making that investment with the intent that that investment delivers service to the public over many years in the future. So if you look at the first part of it, it's the lag between when you complete the project so it can actually be open for service—there is a lag time in that in the private sector and in the public sector—but in the end, the public policy objective is to provide certain specific service benefits to the public over a long period of time. All you're seeing is a little more complexity in the public sector, where there's a chain of provision of the investment through a number of steps before you get to that end delivery.

Mr. Peter Wallace: We are seeing exactly the same complexity emerge in the private sector with the increased use of subcontractors or the increased use of service delivery contracts that are often paid for up front, and then the service is delivered over a period of time. In fact, a subcontractor may well delay the flow of funds to the ultimate recipient.

Mr. Peter Shurman: Let me say that through your use of analogies and your explanations, you've got me on side in terms of my understanding of how you do what you do and why you do it that way. However, let me also note that you haven't made it any simpler for me to go out to my constituents and explain this.

Mr. Peter Wallace: For that, I apologize. It is kind of the world I live in.

The Chair (Mr. Norman W. Sterling): The big problem with your analogy is that the government writes a big cheque to somebody before that service is ever provided. You write the cheque on March 31 or prior to March 31, the service isn't there for half a year, and somebody else has the dough. Very few businesses in the world would operate on those kinds of principles. You're giving somebody else a front end of cash prior to the service being provided.

Mr. Peter Wallace: I do need to spend a moment on this, and it is important, because it's a good and well-phrased question. I need to stretch the analogy a little bit and spend a moment on it, because I do believe there is actually more consistency in terms of private sector practice and public sector practice. To be very clear, the public sector practice we're talking about here is consistent with the practice of the government of Canada, consistent with the practice of other provinces and consistent with the practice of the government of Ontario since the introduction of accrual accounting in the early 1990s. So it is consistent over time—

The Chair (Mr. Norman W. Sterling): But they all have the same bad motives, from my point of view.

Mr. Peter Wallace: What I do need to explain—and I don't want to say that these are not legitimate questions, because they are absolutely incredibly legitimate questions as they relate to accountability. But in terms of accounting for the money, it is an ordinary practice for a business to pay a bill and to account for the payment of the bill before it receives the benefit from that. A business will flow money to a contractor, in many cases years, before the building is built. It will flow money to a service provider, who then engages the contractor. In fact, it may well pay the service provider in full, subject to performance criteria and later access to recourse. But this is absolutely a common practice across all the public sector in Canada with which I am familiar and, to the best of my knowledge, a common practice in business.

The Chair (Mr. Norman W. Sterling): But they book the asset. They have an asset against the money they're forwarding it on. That doesn't happen here, because you're a different entity.

Mr. Bruce Bennett: I think you've got to go to two circumstances, one of which is for those organizations we control, which are often our biggest transfer payment recipients, like hospitals, school boards and colleges: We effectively do record it as an asset on our books. So a lot of the bigger definition of "government" now under PSAB accounting does recognize the very concept you're referring to, so we end up capitalizing a very large proportion of all investments in those particular sectors that are capital in nature.

The ones that are given to a different level of government, like municipalities, which have their own governance structure, their own accountability structure in place, we do treat as expenses in the year. But in concept, you're passing that, just like the government of Canada passes money to the provincial government, who pass money to a municipality. There is a governance and a public accountability structure in place in that municipality and a responsibility for spending the money wisely.

Mr. Peter Wallace: I also think it's really important to consider for a moment that the reason that PSAB and GAAP established the rules they did is that in the alternative scenario, we could make a financial commitment that extended over a number of years and not account for it. So you could have political announcements or policy directions or a guaranteed flow of funds that then was not accounted for in the books, or accounted for in a misleading way so that they would never appear. What's really important is that we ensure, from a public policy controllership perspective, that there is a match between the commitment of funds and the reporting of funds. That's a core aspect of public sector accountability.

The Chair (Mr. Norman W. Sterling): As the Chair doesn't ask questions in this committee, I'll ask Ms. Sandals to go ahead.

Mr. Peter Wallace: If I had known that, I wouldn't have answered. Can I take it all back?

Laughter.

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Mrs. Liz Sandals: I'm going to follow along this track. The auditor and I had this conversation before, that I'm not always convinced that sometimes accounting doesn't get in the way of good management.

Let me give you an example which actually comes from my school board days, when as a school board we would flow to each school a school budget for operating—not for salaries or big stuff like utilities, but for ongoing operating expenditures at the school level. When I was first a trustee, it was "use it or lose it." If you hadn't spent it by year-end, it got clawed back to the board. Of course, what we would see is, as year-end approached, principals making expenditures on things which were not necessarily the wisest expenditures or the best use of money. So we changed the practice to, "If you've got money at the end of the year, you can actually keep it and augment your next year's account." What we started to see then was that people would start to consciously think about, "Here's something that I don't have enough to buy in any one year's operating budget, but if I borrow a bit from two or three years' budgets, I can save up and buy this bigger thing," whether it was a new photocopier or new math texts for everybody in grade 6 or whatever. People were actually doing a better job of managing the money because the accounting rules didn't get in the way.

Then I come forward to MPP, and this may be more a few years ago, before we were consolidating everything on the books, but you would get the sort of February flow of money to somebody, and this might be—well, it could be small capital or something, some agency, but it needs to be spent by the end of March. They would be saying, "We could actually spend this better if you would let us stretch it out." Maybe this is now that they are consolidated, but it's this business of, "We could do better if there wasn't a deadline by which we have to spend something."

That maybe extends to these big infrastructure things that we're talking about where in fact the behaviour that we want to incent in the public sector is that you sit down and do your design and detailed specifications very carefully and thoughtfully before you go to tender, then you go through a proper procurement process, and then you spend the money, and, of course, it being Canada, winter happens. But again, the proper process may be a longer process than putting fiscal-year deadlines on it.

I'm wondering: If, for example, the Auditor General were to be having a conversation with other Auditors General or PSAB committees or whatever, how could we change the rules we're working in now, which are better than the rules we were working with a few years ago, to actually incent good management behaviour in addition to proper accounting? I realize you folks are all in charge of the accounting, but you also have an interest in making sure that taxpayer money is well spent. Is there a way in which we can improve the accounting rules so that we are actually improving management behaviour at the same time?

Sorry to lob that one at you, but I think that's actually what's maybe bugging everybody, to put it bluntly.

Mr. Peter Wallace: I'm going to take three tracks in trying to answer the question. I think you've raised three—

Mrs. Liz Sandals: Does that make it trifurcated?

Mr. Peter Wallace: It does; that's exactly right. I should be more careful with my language.

I think the first is the notion—you talked about procurement and other aspects. I think governments across Canada have made significant realizations and subsequently significant strides in working to tighten up the management practices associated with procurement. That's an ongoing priority and one that needs to be carefully watched. It does take more time. It is more complicated. It does sometimes impair the immediate achievement of a public policy good, but it is, on balance, absolutely the right way to go. That's a management practice largely divorced from the accounting principles—not entirely, but largely—that needs to remain a priority and is a huge priority in the government of Ontario and in the government of Canada, the two with which I'm most familiar.

The second issue relates to the way in which we design and operate our budgets and the issue, in particular, of annual budget cycles and the ramifications of that. Governments around North America operate largely on an annual budget cycle. That provides discipline. It provides a very high level of public accountability. It makes things, believe it or not, much more simple than it otherwise would be in terms of public reporting, but it does have a significant issue: Projects themselves are oftentimes multi-year and it becomes very difficult for organizations to address multi-year priorities over an extended period of time, particularly for those programs that have significant peaks and valleys in them. It works very well for programs that are steady, but significant peaks and valleys can oftentimes remain a significant issue.

So an ongoing conversation around how we manage public finance and articulation of the benefits and challenges of multi-year planning—not only multi-year planning, which we do quite effectively, but multi-year budgeting—is a critical aspect.

Then you asked a question about the accounting of it. There are always instances in which accounting or rules do impose distortions on behaviour, particularly delays and a variety of other aspects, and we do have to be vigilant to remaining both within the rules but also the intent of the PSAB and GAAP mechanism. That has to remain a priority from a controllership perspective, a capital perspective, or an overall planning and budgeting perspective.

We also have to recognize, though, that accounting isn't a static process and it is evolving. One of the interesting things that we're seeing the evolution of right now is a shift in private sector accounting standards that is driven by regulatory reforms that are reflective of some unique problems the private sector has had. While in many respects we think of the private sector as straightforward, the reality is that private sector accounting is heinously complex. In fact, the private sector accounting treatment is no small part of the asset bubble and experience in the US and other international economies in terms of how things are measured and accounted for relative to the true value being discovered in a market concept.

The reforms that are coming forward to address that in the private sector are, to some extent, linking into the public sector, and they may not be appropriate mechanisms because of the different values and purposes. So as we explore the broader construct of public sector accounting, it is complex and difficult at this point. It has the potential to become more complex and more difficult if we allow it to do so.

I know that Bruce Bennett and I, along with other deputies and controllers from governments across Canada, have put some considerable effort into an ongoing dialogue with the Canadian Institute of Chartered Accountants, the overall standard-setting body for the accountants' profession, and the representatives of the PSAB body in order to ensure that the very practical business requirements that governments face on a day-to-day basis are not unfairly distorted by accounting principles.

That does remain a risk, and while I think we're not in a bad place now—not simple, but not in a bad place—it is something we need to continue to monitor. It's a concern across the country, and we've partnered with British Columbia, Quebec and other provinces in order to have that dialogue at a senior level and make sure that the transparency of public sector finances is improved rather than impaired over time.

Mrs. Liz Sandals: I think we've got a lot of time left. I have just one other question before I turn it over to Mr. Zimmer.

One of the areas that has obviously received a lot of public attention is—because there has been so much going out the door in terms of economic stimulus—the provincial and federal infrastructure. I think the point when the auditor was doing the report was fairly early in the cycle of this money going out the door.

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From the perspective of now as opposed to many months ago, could you give us an update on what in fact is actually happening around the accountability for that, both in terms of Mr. Shurman's simple communication with the public, because I think you've got more of that information up on a website now, but also in the behind-the-scenes accountability pieces, to make sure that that money is spent the way we want it spent?

Mr. Peter Wallace: I'm going to try and deal with the question from a policy-intent perspective. Just fair notice to Bill: I'm going to ask you to address the quantitative part.

From a policy-intent perspective, the government of Ontario formed a view of policy perspective in the first quarter of 2009 that that significant stimulus was an appropriate mechanism for the Ontario economy. Not coincidentally, on the face of the same evidence and the same fiscal pressures, the government of Canada reached a similar determination.

There was a period of very constructive federal-provincial dialogue between us and the government of

Canada and other provinces, but particularly between us and the government of Canada, that resulted in an integrated and, to a considerable extent, seamless stimulus package rolling forward that involved the senior governments providing very significant resources largely into the broader public sector, with a considerable amount of that into the municipal sector as well.

From a policy intention, the intent was to provide significant stimulus for the duration of a period of economic downturn. While we are on the road to recovery in terms of statistical gains, it's important to remember that the Ontario economy remains below the level it was at in 2008. The level of jobs remains below the level it was at. It is vitally important that stimuli continue to roll through the economy. That's a judgment made by the government of Ontario. It's exactly the same judgment made by the government of Canada. The policy practice we have put in place of providing stimulus to the municipal and other areas of the broader public sector is, in policy intent, in accounting treatment and in accountability provisions, very closely aligned to that of the government of Canada.

As we look at it from an economic perspective, that integrated thrust is hugely important in terms of not only the provision of money but the fact that the money provided in 2009-10 continues to have a positive impact, and the money we're providing now, for 2010-11, will continue to have a significant construction, job creation and ultimately economic benefit tail associated with it. That tail matches nicely with the expected duration not of the statistical recession, which is only the period of down, but with the very long hangover—I should use better language—the very long period in which the economy remains below the potential or the track it was back in 2008.

We should remember that this is a recession that existed in Ontario almost exclusively as a result of weakening US demand. Canadian demand—the things influenced directly by governments in Canada—remained relatively strong. It's essentially a stopgap, or a stimulus package, to carry us through until appropriate US recovery takes place.

I'd like to ask Bill to speak to the quantitative aspects in terms of where we are, relative to the stimulus programs.

Mr. Bill Hughes: Sure. Maybe I'll also take a kick at the accountability part of the question.

We have about $6 billion in infrastructure stimulus spending over two years. Over 5,400 projects have been approved. Over 3,100 of those are either under way or complete. The portion that's complete is about 840 projects; I've got 840 projects that are already done.

In terms of accountability, we have put a number of measures in place. The first thing we did in Ontario—this is something that was a government choice. The government decided to run an open intake process for all of these stimulus programs for the municipal and non-profit portions of the stimulus programs. No other province did that. That's part of being open, transparent and accountable about how you receive the applications and give everyone a fair shot at applying. Other provinces often went to previous competitions they'd had for different infrastructure programs and pulled applications out of those, or negotiated with the federal government or whatever. They followed their own path, whatever they thought was appropriate. But in Ontario, we ran open, competitive processes for the stimulus programs.

The second thing that we did was, we negotiated agreements with the federal government. So for all these different programs—and there are lots of them; I could talk about all the different programs and, I'm sure, bore you to tears—we negotiated an overarching agreement with the federal government, which included pretty extensive accountability provisions between them and us. Then what we did was we took the provisions in those overarching agreements and translated them into contribution agreements, which we had with all of the municipalities and others who received funds. The federal government was not a party to those agreements; those agreements were just between Ontario and the recipient. But the Canada-Ontario agreements had a very major influence on the content of those contribution agreements, ensuring that there were lots of accountability provisions in place.

Another thing that we did to try to make sure the accountability worked was, rather than keep the delivery of these programs centralized, which was an option since we have a centralized capital planning process in Ontario, we instead divested the responsibility for delivery to the line ministries that were closest to the sector involved, that knew the sector the best and would be best able to monitor how the projects were proceeding.

We also had quite strict tracking and reporting requirements in all of these contribution agreements. So rather than having to report every year or every six months or whatever, we now ask people to report monthly. As I mentioned before, we now have a public reporting and tracking website, and we update monthly, based on the reporting that we get in from the recipients on the progress of their stimulus projects.

Maybe I'll stop there.

Mrs. Liz Sandals: Thank you.

The Chair (Mr. Norman W. Sterling): Thank you. Mr. Zimmer?

Mr. David Zimmer: Almost a mechanical question: On page 1 of the auditor's report, under the "Background" there, there are two bullet points and then a comment underneath. The comment says, with respect to the concerns—that is, the unspent grants and so on—that the auditor was pleased to report that in 2008, after working with ministry officials, they agreed on a number of accountability and control provisions to address his concerns.

My question is, can you tell me what those control provisions are and how they work? That is, how do you keep track of your grant recipients? How do you audit them to make sure they are doing it? What's the actual process there?

Mr. Peter Wallace: I'm going to ask Bruce Bennett, the provincial controller, to provide the response to that question.

Mr. Bruce Bennett: You've asked a question with a couple of aspects to it, but I'll first go back to the discussions we had with the Auditor General back in 2007. At that time—and I think building on the question that Mrs. Sandals raised—there was a question of interpretation of accounting, and was it conflicting with good, sound accountability? A really important element of concern to myself, as controller, and as well to the Auditor General, is that we want to make sure, ultimately, that we have value for money and that there's as much congruence as possible between how the accounting rules interrelate with ensuring that we're achieving the policy objectives of the government and value for money for taxpayers.

So we sat down after the experience and came to an understanding of exactly how we could interpret the accounting, what provisions could be attached to these grants that would not conflict with the accounting rules of PSAB. We also looked at it in terms of whether the cash had to go out the door before the end of the year, or could we accrue forward and the cash go out at a later period? So after that review, we got a joint understanding within the PSAB bounds of how we could apply the accounting standards and improve accountability. There was a significant shift at that time.

The things that were brought in, and it may be amazing to you today, but the things we didn't have before that time were a real, specific definition of exactly what was the purpose of the grant—before that, it was just sort of a general intent—a very specific definition of the purpose for which it was to be used and what types of expenditures were eligible. We could even put on specific output expectations of services that could be delivered.

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Mr. David Zimmer: I appreciate all of that, but how does that play out in facts? There's a chunk of money that has gone to some organization in northwestern Ontario, another big chunk has gone to various places in the MUSH sector and so on. How do you actually track what they're doing? Do you have an auditor who shows up on a random audit at their office and says, "Show me what has happened to the money"? How does that work?

Mr. Bruce Bennett: One of the second aspects we added was report-back requirements. I think the first tracking is an obligation on the recipients to report back on a periodic basis. As Mr. Hughes has highlighted in some of his examples, depending on the particular program, that reporting is more frequent. As time has evolved, we're demanding more frequent reporting as the programs have evolved. So the first obligation is on the recipient to report back, in accordance with the contribution agreement that has been reached with them, on just how the progress has gone against the intent.

Then, there have been specifically put in, under the transfer payment accountability directive which was put in, obligations on the ministry, which is responsible for those grants, to monitor and track those particular reports and an obligation to take actions in accordance with them, if they're not receiving the reports, to follow up and track with the recipients.

Ultimately, the key thing is that, at that stage, we have options under the contracts to send an auditor in if there's concern of how it's being taken. That's the government's option, to send in an auditor to determine just how the money has been spent: Has it been spent in accordance with the intent?

The final lever we have is the ultimate lever. If, as a result of the audit and all the discussions, we determine that it hasn't been spent, we have the right to actually recover the funds, whether it has been spent on the wrong purpose or hasn't been spent for the intended purpose.

Mr. David Zimmer: Do you have any information about the default rate of these recipients reporting back? How many are in arrears of their reports of what they've done with the money? Do you have any information on the number of times that you had to send someone out to check the books? Do you have any information on how many times you've actually said, "Give us the money back"?

Mr. Bruce Bennett: I'll turn those over, because those are very program-specific. Maybe I'll ask Bill to answer some questions in the context of the particular programs that he's responsible for.

Mr. David Zimmer: What I'm getting at is, is someone actually out there bringing the whip down?

Mr. Bill Hughes: As I was explaining earlier, the different programs—here, we're going back to 2007-08 year-end investments. As Bruce was saying—

Mr. David Zimmer: I'm interested in what has been happening since the auditor said that he's pleased to report that there are new—so let's let bygones be bygones.

Mr. Bill Hughes: I'll just speak for a second about the 2007-08 ones. To respond to your initial question, there is actually, to the best of my knowledge, no one who's in default in terms of their reporting. As far as we know, everyone is meeting the reporting requirements that were put in place for those grants.

In terms of what's happening now, we have, as I was saying, pretty strict reporting requirements under the various stimulus programs. Municipalities and others are reporting. There have been instances where the line ministries have to chase them for their reports. That's normal. When you have thousands of projects, sometimes people are not going to get their report in on time.

For example, the Ministry of Agriculture, Food and Rural Affairs is delivering many of the programs on our behalf, and so they have program analysts who are able to go out and follow up with individual project recipients who might not be reporting. It's the same thing with the Ministry of Municipal Affairs and Housing. It's looking after the social housing programs. They can follow up with the municipal service managers if there are any issues with the reporting.

The thing that has changed, and this is actually thanks to the Auditor General's report—the thing that really focuses people's attention is the website. If you're putting information up on a website and it's your information, whether you're the line ministry responsible, the municipality responsible or the university responsible, it does tend to focus the mind when your own stakeholders, staff, community members or whoever can go and look at how your particular—

Mr. Peter Wallace: Finance deputies.

Mr. Bill Hughes: Finance deputies: yes, absolutely. Yes, finance deputies can go and look at the project and ask questions. If it doesn't make sense to them—for example, if somebody is saying that their project is 50% complete and nothing is coming out of the ground, then people can ask questions when they can see it on the website. That has had a real impact, I think, on people's incentive to report and to report correctly.

Mr. David Zimmer: Have you had to impose the ultimate sanction of "Give us back the money" on anybody?

Mr. Bill Hughes: Not to the best of my knowledge.

Mr. David Zimmer: Presumably you'd do it, if it came to that?

Mr. Bill Hughes: Absolutely.

Mr. David Zimmer: Would asking for the money back be a decision taken by the public service or in conjunction with the minister? How would that work?

Mr. Bill Hughes: If we were going to ask for money back, we would go to treasury board and get treasury board approval in order to do that.

Mr. David Zimmer: Thank you, Chair.

The Chair (Mr. Norman W. Sterling): Mr. Tobins.

Mr. Peter Tabuns: Tabuns, Mr. Sterling.

The Chair (Mr. Norman W. Sterling): Tabuns. You were already at 25 minutes.

Mr. Peter Tabuns: I'll be relatively brief and then Maria can ask her questions.

The Chair (Mr. Norman W. Sterling): Okay. Do you want to—

Mr. Peter Tabuns: Sure, go ahead.

Mrs. Maria Van Bommel: If you don't mind, Chair.

The Chair (Mr. Norman W. Sterling): No, that's fine.

Mrs. Maria Van Bommel: Thank you. Just really quick: Mr. Zimmer talked about getting the money back. When you do that, is that the actual grant money plus interest? What happens there? Some recipients may have stowed it away for a while and earned a considerable amount of interest on that.

Mr. Bill Hughes: Maybe I'll speak to the stimulus programs, because they're the most relevant at the moment.

The deadline for the stimulus programs is March 31, 2011. One of the interesting points of negotiation with the federal government was, if a recipient has not completed its project by March 31, 2011—which they are all obligated to do and they've all agreed to do—what happens? Do we claw back any money?

There are different answers in different provinces. In Ontario, the answer to that is no; we're not clawing back any money. If a municipality has actually spent money, including the federal and provincial portions, and money is in the ground—the project is happening—we're not proposing to take any of that money back from them.

What would happen, though, is: Let's say they've done—I'll pull a number out of the air—90% of their project by March 31, 2011. At that point, federal and provincial grants stop and the additional 10% of the project is up to them. There's a big incentive for them to finish their project on time.

With the stimulus projects, it's not so much taking the money back as not giving it, if they haven't met the deadline.

Mrs. Maria Van Bommel: But if they haven't done anything at all?

Mr. Bill Hughes: That's a very good question. If they haven't done anything at all, through the reporting that is happening and the tracking that's happening on the website, we should know way in advance of March 31, 2011, that nothing is happening. One of the conversations we'll need to have with treasury board is what remedial actions the government wishes to take.

Mrs. Maria Van Bommel: There is no policy around what would happen on any interest that was earned on the money?

Mr. Bill Hughes: Interest on the money? Interest on the money is something the municipality could keep. If a municipality has earned interest on the money—

Mrs. Maria Van Bommel: They get to keep it?

Mr. Bill Hughes: In most cases—let me back up a step. Unless they've spent the money under the stimulus programs, they don't get money from us. We pay based on progress. They don't have a lump sum from us, under the stimulus programs, that they can just put in the bank and earn interest on. However, there are a couple of wrinkles to that, and I'll do as much of this sort of detail as you want.

Mrs. Maria Van Bommel: What I'm really referring to is the year-end stuff, when we actually send them the cheque and they put that into their bank account.

Mr. Bill Hughes: Usually what we do in those situations is discount based on the expected interest rate. If they're planning to build a project, say, two years from now and we give them money in advance, we discount based on expected interest and we give them less than we otherwise would.

Mrs. Maria Van Bommel: That's what I wanted to know. Thank you.

The Chair (Mr. Norman W. Sterling): Mr. Tobins.

Mr. Peter Tabuns: Tabuns.

The Chair (Mr. Norman W. Sterling): Tabuns.

Mr. Peter Tabuns: Thanks, Norm. Brian Tobin ruined my life.

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Mr. Peter Tabuns: Most of the questions that I had have been asked by others, so I just have a brief question. I raised this with the Auditor General earlier. You make payments at year-end, and the simple reality is that those will continue in whatever shade of government we have. Those payments are made to municipalities or grant recipients and shown on our books as expended but, in reality, the impact of those expenditures will come in future years.

Is it possible to make a notation that a portion of the spending is expected to actually have an impact on the economy in following years? If it is possible, can you talk about how we could do it? If it's not possible, tell me what the negatives are.

Mr. Peter Wallace: Let me talk about the difference between the budgeting process and the accounting process. The accounting process is meant to be—and it is always challenging to make it—as clear as possible. What we do in the accounting process is, when the significant economic impact of the transaction is felt by the government, that is when we record it. That's identical to the private sector, exactly in the analogy of—we, for example, may provide a grant to a car company to incent the creation of an amount of investment, new jobs or all of those other things. Whether we do that in the first quarter or the last quarter of the fiscal year, the reality is, we will account for that during the appropriate fiscal year in which the economic decision was taken. But the cash flow and subsequently the economic impact of that will be felt for many, many years to come.

One of the unique aspects of public finance, relative—that's all consistent between public and private finance. What is different about public sector finance, though, is that a huge amount of what we do provides a very long economic impact. When we create a new school, when we create a new hospital wing, when we create any of these other things, we would—in fact, investing in children can arguably be found as a different—the operating expenditures. These provide an implicit rate of return to the economy and to the public of Ontario over an extraordinarily long period of time.

In a practical sense, we would footnote the daylights out of public accounts and make them even more challenging than they are right now to read. So I think that the appropriate way, probably, in which to see this is in the budgets. Successive governments have used the budget and the budgeting process to talk about the out-year economic implications of the expenditures contained in a specific fiscal year. But the reality is that all governments, essentially, invest in a way that's quite common among all governments of Ontario and across governments in Canada: with the expectation that there will be sustained economic benefits associated with current-year expenses.

Mr. Peter Tabuns: That's it, Chair.

The Chair (Mr. Norman W. Sterling): Can I just ask one question? The US government, when they went and did their stimulus program, established a Recovery Accountability and Transparency Board to conduct oversight. The federal government has a special committee of deputy ministers who are involved with stimulus spending. Do we have any similar structure here in Ontario?

Mr. Bill Hughes: We have a couple of things. For all the programs, we have management committees. They involve the MEI, which is the central agency for infrastructure, and whatever line ministries are actually delivering the program, line ministries that have an interest. The federal government also has representatives. So every program has its own management committee.

The Chair (Mr. Norman W. Sterling): Do they produce public reports?

Mr. Bill Hughes: No, they do not. They just manage the program.

Secondly, like I said, the MEI acts as the central agency for infrastructure, so we have an oversight responsibility, if you like, for making sure that the programs are dealt with in an even-handed and consistent manner.

The third thing, I would say, is that we are in fact being audited at the moment by the Auditor General. We've been audited by internal audit and also by the Auditor General. I think there have been times when we've actually had more auditors working on the programs than we've had actual staff, which is an interesting experience.

The Chair (Mr. Norman W. Sterling): That's a dangerous admission.

Mr. Bill Hughes: But that helps us to stay on our toes. Like I was saying about websites for other people: When you're trying to deliver programs or a series of programs, there is nothing that focuses the mind like knowing that you're being audited.

The Chair (Mr. Norman W. Sterling): There being no further questions, I'd like to thank you all for being here and discussing this topic with us.

Just before Hansard goes—thank you very much for your help—I need a motion to approve the budget, as presented.

Mrs. Liz Sandals: I can do that. Peter seems to have disappeared.

I move that a budget of $30,700 be adopted for the Standing Committee on Public Accounts to attend the 2010 annual conference of the Canadian Council of Public Accounts Committees in Quebec City.

Should I put in there "a maximum budget," or is that the budget, which inherently is a maximum?

The Chair (Mr. Norman W. Sterling): That's the budget.

Mrs. Liz Sandals: Okay. Then just as I read it: "I move that a budget of $30,700…."

The Chair (Mr. Norman W. Sterling): Discussion? Carried.

The committee continued in closed session at 1353.

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