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# Official Report of Debates (Hansard)

**Wednesday 5 October 2016**

# Journal des débats (Hansard)

**Mercredi 5 octobre 2016**

## Standing Committee on Public Accounts

2015 Annual Report, Auditor General

## Comité permanent des comptes publics

Rapport annuel 2015, vérificatrice générale

Chair: Ernie Hardeman
Clerk: Valerie Quioc Lim

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

# STANDING COMMITTEE ON PUBLIC ACCOUNTS

# COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 5 October 2016

Mercredi 5 octobre 2016

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*The committee met at 1231 in room 151.*

## 2015 ANNUAL REPORT, AUDITOR GENERAL

Consideration of chapter 2, public accounts of the province.

**The Chair (Mr. Ernie Hardeman):** I'll call the meeting of public accounts for October 5 to order. We're here this afternoon to hear about chapter 2 of the 2015 annual report of the Auditor General, and we have a group of people presenting.

Just for the record, the instructions: You will have 20 minutes to make a presentation. Any of you or all of you can speak, but only if you can get it in the 20 minutes. We'll then have questions and comments from the committee. The first questions and comments—it will be in 20-minute rotation, and we'll start with the government side when we get to that point.

We ask the panel to introduce themselves before they speak, for Hansard, to make sure that we have the name right. I always find it easier to let the panel introduce themselves; sometimes I have trouble with my pronunciation and we end up having the wrong people speaking.

With that, we will turn it over to you and ask each one, the first time that you go to the mike, to put your name on the record for Hansard's purposes. Thank you very much for being here this afternoon. The floor is yours.

**Mr. Greg Orencsak:** Good afternoon, Mr. Chair and fellow members of the public accounts committee, and our colleagues from the Office of the Auditor General. My name is Greg Orencsak. I'm the Deputy Minister of the Treasury Board Secretariat.

On behalf of my colleagues and myself—and my colleagues, obviously, from the Ministry of Finance and the Ontario Financing Authority—we are pleased to be here today to address the committee on chapter 2 of the Auditor General's 2015 annual report. This includes discussion of the province's debt, as well as discussion of the province's 2014-15 annual report and accompanying financial statement discussion and analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As the members of the committee will know, we also had the pleasure of joining this committee last year to discuss chapter 2 of the Auditor General's 2014 annual report. We look forward to having these discussions with this committee and to maintaining a positive and collaborative relationship with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in chapter 2 of her annual report last year. During our presentation, we will update the committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public sector entities. We all agree on the importance of producing high-quality financial reports which serve the transparency and accountability needs of the public and the Legislature.

When we appeared before this committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 annual report. My colleague Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Tom Teahen, who is the president and CEO of the Workplace Safety and Insurance Board, whom you have invited to appear before the committee today. Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahen would be pleased to update you on the board's progress on meeting its efficiency ratio, which has been an interest of the Auditor General's over the past several years.

As noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results but also in relation to the government's fiscal planning process. Since public sector accounting board standards were first adopted in Ontario in 1993, they have had a profound effect on how the government reports its financials to the public and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting and what the primary users of this information expect from their government. I'm sure we all agree that the principles of transparency and accountability for governments reflect the fundamental elements of a democratic society. They are the base upon which the public sector accounting boards and accounting standards are set. In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the Fiscal Transparency and Accountability Act and the Financial Administration Act. These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the Fiscal Transparency and Accountability Act in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency. Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

At last year's hearing, we reported that Ontario had received an A from a C.D. Howe report, ranking it among the best in overall quality of its reporting of financial results. This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of the release, our ranking has fallen to an A-. In other words, it still remains very good. In line with the C.D. Howe position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice. We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB standards for liability for contaminated sites, noted in the Auditor General's report as a challenge that was successfully navigated.

Staff at the Treasury Board Secretariat have also taken steps to enhance the transparency and accountability in the report and to make the information contained in it more accessible and understandable for the average reader. Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average reader to better understand the trends and balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the financial statement discussion and analysis section of the government's annual report. Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a clear manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB statements of recommended practice, our staff also reviewed the reports of other Canadian governments to identify best practices. Ontario's annual report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management and transparency and accountability in public reporting.

As the Deputy Minister of the Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen accountability and transparency. In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high-quality public sector reporting for the people of Ontario and this Legislature.

**1240**

At this point, I will turn it over to my colleague Deputy Thompson to discuss the management and financial issues in greater detail.

**Mr. Scott Thompson:** Thank you, Greg. Good afternoon, everyone. It's nice to be here. My name is Scott Thompson, Deputy Minister of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts. I welcome the opportunity to discuss how the province manages its debt through the Ontario Financing Authority and also to discuss how the government presents its financial information and reports.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 public accounts of Ontario.

Like the TBS deputy minister, I am also in agreement with the Auditor General's recommendations from the 2015 report relating to the importance of producing high-quality financial reports that meet the needs of the public and Legislature. Accurate and accessible information is crucial to accountability and transparency—two priorities for the government and for the public service. The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt. The government continues to confirm its commitment to eliminate the deficit by 2017-18. This includes the most recent provincial budget. It should be noted that this commitment builds on past success. Successive budgets and public accounts have continually demonstrated that the province has beaten its annual deficit targets year after year

The government is achieving and beating these targets by managing program spending growth and by making strategically important financial decisions.

This spring, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative. Moody's said, and I quote, "The stable outlook on the province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels."

Moody's outlook on the province was further confirmed in a later report. It said, "Ontario's debt burden and debt service cost will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."

The report also speaks positively to the importance of the province's infrastructure spending at this time of low interest rates, as have a number of other external observers.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses. Indeed, private sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

The government is using another tool to support growth and create the jobs province-wide that strengthen our economy. That tool is our asset optimization plan: unlocking the value of certain provincial assets.

As you know, in February 2015 the province sold its remaining shares in General Motors and, in the 2015 budget, the province committed to unlocking the value from provincial assets in order to, together, contribute approximately $5.7 billion for infrastructure projects. The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects that are part of the largest investment in public infrastructure in the province's history.

The government has already filed regulations crediting the Trillium Trust with net revenue gains from the initial stages of its asset optimization plan. These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, its asset sales, our Q1 Finances and Ontario economic accounts are all concrete examples of these efforts.

Of course, we can do more, and we will. We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

Before closing, I would also like to take the opportunity to thank the staff from the Ministry of Finance who have helped to prepare for this session today, many of whom are in attendance behind me.

I will now turn it over to Gadi Mayman, CEO of the Ontario Financing Authority, to discuss the management of the province's debt.

**Mr. Gadi Mayman:** Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon. My name is Gadi Mayman. I'm the chief executive officer of the Ontario Financing Authority. In this role, I'm responsible for overseeing Ontario's borrowing and debt management strategy, our corporate and electricity finance projects, and banking relationships for the province. I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I'd like to thank the committee for the opportunity to discuss what we've been doing to address the points raised by Auditor General regarding Ontario's debt.

Let me start with net debt. The government is committed to reducing the net-debt-to-GDP ratio to its pre-recession level. A government's net debt increases primarily for two reasons: to finance its deficits and to invest in capital assets.

In the first few years after the global recession in 2008-09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period, the government continued investing in improvements to the province's capital infrastructure. The government plans to invest more than $137 billion in capital over 10 years and $160 billion over the 12-year period that started in 2014-15. Investments in capital supplement GDP growth, and the net-debt-to-GDP ratio will come down more quickly than it would have without these investments.

Once a balanced budget is achieved, the increase in net debt will be limited to the difference between the cash investments to build the assets and the amortization, which is a non-cash amount. This means that achieving balance will put net-debt-to-GDP on a declining track.

Moody's states, "Even though debt issuance will continue, the growth of debt will be reduced and will be lower than that of revenue growth over the medium term, resulting in a declining trend for the province's debt burden."

Let me turn to the borrowing program for a moment. Ontario conducts a robust and responsible borrowing program that protects the public interest. Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Extending the term or maturity of the province's debt has allowed the OFA to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks. It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

In fact, since 2010, Ontario has issued $59.1 billion of bonds with maturities that are longer than 30 years' duration to lock in these low rates. As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly. In 2009-10, it was 8.1 years; last year, it was up to 14.1 years.

The 2010 Ontario budget forecast that, by 2016-17, the province would have to spend 11.7 cents of every revenue dollar on interest. Currently, the province spends 8.5 cents of every revenue dollar on interest—3.5 cents lower than what was forecast in 2010. This ratio is the lowest it has been since 1990, and is forecast to remain low through the outlook period to 2018-19.

The province takes a very prudent approach to managing the risks associated with its borrowing program. Ontario limits itself to a maximum net interest rate resetting exposure level of 35% of debt issued for provincial purposes. It also limits itself to a maximum foreign exchange exposure level of 5% of debt issued for provincial purposes.

Currently, the actual values for Ontario's net interest rate resetting exposure and foreign exchange exposure are 10.6% and 0.33%, respectively. As you can see, this is well below the policy limit levels.

The province will remain flexible in its borrowing approach. The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

Tom?

**Mr. Thomas Teahen:** My name is Tom Teahen, and I'm the president and CEO of the Workplace Safety and Insurance Board.

I want to thank the committee for having me today to give an update on our progress since the 2015 report of the Auditor General. I just want to acknowledge the Auditor General and her staff.

I also want to acknowledge Pamela Steer, who's our chief financial officer, and our chair, Elizabeth Witmer, who are with me here today.

**1250**

Very quickly: The Auditor General in the 2015 report was supportive of the continued classification of the WSIB as a trust agency, and I'm pleased to report to the committee that we've continued to make strong progress. In my submission, that progress continues to support and warrant the WSIB's trust status.

Our situation today, in 2016, is much different than our situation in 2009, when the Auditor General of the time expressed concern about our ability to meet our commitments—that is, our commitment to workers to protect their benefits and our commitment to employers to provide stable and predictable premium rates.

As of Q2 of 2016, our unfunded liability stands at $5.6 billion, which is down from $14.2 billion when the UFL reached its height in 2011.

Currently, our projections place us on a trajectory to eliminate the unfunded liability by 2021, which is in fact six years ahead of our legislated requirement.

Our sufficiency ratio is currently forecasted to reach approximately 85% by the end of 2016.

It is our responsibility to ensure that the WSIB and the workplace compensation system exists for generations to come and to ensure that workers' benefits are protected and employer premiums remain stable and predictable. I can assure this committee that, once the UFL is gone, we will continue to operate in a manner that is financially sustainable so that we can ensure secure benefits and stable premiums into the future.

I'll conclude there. I welcome any questions from the committee.

**The Chair (Mr. Ernie Hardeman):** Thank you all very much for your presentation. We will now turn it to the government: Mr. Baker.

**Mr. Yvan Baker:** Thank you all for coming in to speak with us today and for all your hard work and the hard work of your teams who are behind you, on behalf of the people of Ontario.

One of the things that I've heard a lot about in my community since being elected to office in 2014 is about the issues that we all work hard to deliver on, whether it be health care or education or whatever the case may be. I think people in my community also understand that fundamental to achieving those goals is ensuring that we manage the province's finances effectively. Two of the key measures that I look at, and I know many of my constituents look at, are where we stand with regard to balancing the budget and where our debt-to-GDP ratio is.

If I look at page 45 of the auditor's report, she provides an outline of where our deficit stands. I'm wondering if you could share with us: Why was the deficit lower than projected, and also where do we stand with regard to reaching a balanced budget and where are we on debt-to-GDP?

**Mr. Scott Thompson:** I can take the first part of that, Mr. Baker. Gadi might want to talk about net-debt-to-GDP a little bit. We share this.

Last year, the government beat its deficit target for the sixth year in a row. Last fiscal year's deficit was $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17, and a return to a balanced budget in 2017-18.

The improvement over the plan was due in a large part to the Ontario government's strong focus on managing growth and spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years, the province has held the average annual growth in program spending to 1.4%, which is less than the rate of inflation, while still investing in the services that people rely on.

Some of the key elements of the government's plan to eliminate the deficit are program review, renewal and transformation (PRRT); managing compensation costs; maintaining tax fairness and a level playing field for business; and strengthening government transparency, financial management and fiscal accountability.

You will note that we have taken measures, particularly in our last budget, on building the growth initiative. Trying to build up the economic growth of the province is critical to also balancing the budget, building the growth and improving GDP. I mentioned in my opening remarks that our economic growth numbers are in the top two in the country and continue to be strong, despite a lot of global uncertainty and national disparity in economic results. That's critically important. It's showing that investments in infrastructure, investments in skills and training, and other investments in economic growth are starting to pay off. We need that because that GDP growth translates very quickly into revenue growth, in the form of personal income taxes, corporate taxes and HST. I spoke a little bit about the expenditure side of the balance, but the revenue is critically important, and that's why continuing with those efforts is really important.

Gadi, can you touch on net-debt-to-GDP?

**Mr. Gadi Mayman:** Yes, certainly. Net-debt-to-GDP ratio is expected to peak this year and next in the neighbourhood of about 40% of GDP. After we balance the budget, as I had mentioned in my opening remarks, the increase in debt will be exclusively due to investments in capital. With those investments in capital, because the net-debt-to-GDP is a ratio, the investments in capital enhance GDP, both in the short term, during the construction phase, and over the longer term, as we have roads, bridges and subways that allow people and businesses to move more efficiently and effectively.

By enhancing the denominator, making it higher, that helps bring down the net-debt-to-GDP ratio and the government maintains a target of returning to the pre-recession level of 27%.

**Mr. Yvan Baker:** Thank you.

**The Chair (Mr. Ernie Hardeman):** Mr. Fraser.

**Mr. John Fraser:** I'd like as well to thank all of you for being here today and for the work that you do to manage our province's finances.

My question is around interest. We've heard a great deal in the news recently about the vulnerability of household debt to a rise in interest rates. In chapter 2 of the 2015 annual report, the auditor points out that same kind of vulnerability with respect to interest rates for Ontario and the debt that we're carrying. I also know that we consistently manage our interest below that which we project. Can you explain to me what we've done to reduce borrowing and keep those interest rates low? That's Deputy Thompson or Mr. Mayman.

**Mr. Scott Thompson:** I guess I'll say a couple of things, but this is Gadi's day-to-day job, so I'm going to let him speak to how he manages the debt.

It's through a combination of things, Mr. Fraser. It's through really prudent management of the debt. We look at diversifying that. We look at extending the term. As you said, we're in historically low interest rates, and that's an opportune time to make investments in infrastructure. That's one of the reasons that Ontario has a historic building program under way. The fact is that we can borrow at low rates, extend the term, and therefore reduce the risk that you spoke of in your question.

Gadi, you can talk more about that.

**Mr. Gadi Mayman:** Certainly. Thank you, Scott. I think it's really important to note that interest rates are at historically low levels. Short-term rates are, in many countries around the world—not in Canada or the US but in many countries around the world, including Germany and Japan—actually negative right now. In other words, what would happen is that if somebody wants to buy 10-year German debt, they'd buy debt from the German government and 10 years later the German government actually pays them back less than what they currently have.

We don't have that situation here, and that's actually a good thing. With rates that are negative and low, that implies that there's something really fundamentally wrong in the economy. Our rates, though, while not negative, are very low. What we at the OFA have done is taken advantage of those low rates to lock them in for a long period of time.

In doing so, we've actually made a bit of a sacrifice in that we could borrow everything short. We have a $24-billion borrowing program. If we borrowed that all in three-month, six-month or one-year paper, the rates would be exceptionally low. They'd be under 1%. But we don't think that's prudent in the long run. While we think that would save us some money on our cost of debt in the short run, we don't think that makes sense because it leaves you exposed. As the Auditor General has pointed out in her report, a 1% increase in interest rates would result in a $35-million increase in what our annual interest costs are.

**1300**

What we've done is we've said, "We're going to pay a little bit more up front; we're going to lock in those rates for a longer period of time." In many ways, it's like the choice that homeowners make with their mortgage. You can accept a floating-rate mortgage and have a really low rate, but maybe lose some sleep over it at night because what happens if rates move back up again? Or you can lock in for a longer period of time.

Unlike a homeowner, we can lock in for very long periods of time. What we've done is we have, over the last five or six years, borrowed almost $60 billion worth of debt that has a term of at least 30 years. We've locked in those rates for 30 years. Even if rates do move back up, and we do expect them to start moving back up at some point in the future, we've locked in those rates for an extended period of time.

That's how we protected the fiscal plan into the future. We think that's a very important goal, not just what our interest costs are in the current year, but what they are in the future and locking in those rates in the future.

**Mr. John Fraser:** Thank you very much.

**The Chair (Mr. Ernie Hardeman):** Yes, Mr. Baker?

**Mr. Yvan Baker:** How much time do we have, Chair?

**The Chair (Mr. Ernie Hardeman):** You have about nine minutes.

**Mr. Yvan Baker:** Nine minutes; great.

What I want to do, and I think this links up with what you were just saying, Gadi, around debt management—and I've always been interested in hearing you speak about this, not just at this committee, but in other briefings.

I know that Moody's just released a report, and they noted that Ontario's debt burden and debt service cost will remain manageable. They attributed it to a few things, including low interest rates as well the province's improving fiscal position and the conservative debt-management policy that you just spoke about. Could you just explain how those debt management policies are not only keeping debt servicing costs low, but what else we are doing that has resulted in Moody's recent findings?

**Mr. Gadi Mayman:** Yes. As you've mentioned, Moody's has just put out a report that does talk about what we've done. Moody's, as you're aware, was somewhat skeptical and concerned about what the government's fiscal path was and had us on negative outlook for two years—had our Aa2 credit on negative outlook for two years.

They revised that following the 2016 budget to a stable outlook. That was based on the fact that the government is very close to achieving a balanced budget and is committed to doing so by 2017-18. They also, as you mentioned in your question, talked a lot about what we'd done in order to lock in interest rates and protect ourselves from future volatility.

One of the other things they mentioned and that is important to us is that we maintain a high level of what we call liquid reserves. Liquid reserves, effectively, are cash in the bank, the amount of money that we maintain.

Prior to the financial crisis in 2008-09, we kept reserves that were in the neighbourhood of between $5 billion and $10 billion. We've now upped that to over $20 billion. That provides us with protection or a cushion if we were to come to a point in time where we weren't able to access markets because of another crisis in the financial markets. I'm not expecting that to happen, but you always need to be prepared for that. That's another way that we've protected ourselves in addition to extending the term of the debt in order to protect that.

We've been able to extend the term of the debt in this low-interest-rate environment. Even though, as I mentioned in the answer to the previous question, we pay a little more because of a long-term rate as opposed to a short-term rate, we've been able to lock in rates that are considerably below what we had prepared or budgeted for.

Back in 2010, in the 2010 budget, we had forecast that by this year, 2016-17, we'd have to spend 11.7 cents of every revenue dollar on interest. In other words, revenue comes in; only 88.3 cents is available to spend on programs. The other 11.7 cents have to be spent on interest. In fact, because of the low-interest-rate environment, the fact that we've been able to lock in those rates and because of the fact that the deficits have been lower every year since 2010, we've had less that we've had to borrow. Right now, we're only paying 8.5 cents out of every revenue dollar, so 27% less, which is also protecting the fiscal plan.

**Mr. Yvan Baker:** Thank you.

**Mr. John Fraser:** How much time?

**The Chair (Mr. Ernie Hardeman):** Seven minutes.

**Mr. John Fraser:** Seven minutes? Okay.

Mr. Teahen, I'd like to address my questions—and I want to thank you and Chair Witmer for being here today, because I think the work that you're doing at the board is critically important, not just for workers but for employers.

The Auditor General has discussed, I think, in the last couple of years, that the government reconsider the exclusion of WSIB from its consolidated financial statements. The suggestion is that there's a risk that the government may have to backstop the WSIB to make it remain viable. Why has the government not put it on the consolidated books?

**Mr. Thomas Teahen:** Referring back to the 2009 report of the Auditor General, which I think flagged for everybody a concern about the magnitude of the unfunded liability and raised some questions about the independent trust status of the WSIB—I think that caught everyone's attention, and as a result of the concern raised, the WSIB itself had to examine very carefully the costs leading to the unfunded liability, had to look at its business model carefully, and had to put in place a plan to not just deal with the unfunded liability but also ensure that, at the same time, it was ensuring it was meeting its mandate and commitment to protect benefits for workers.

A big part of that plan was, in 2009-10, the decision of the WSIB to move back into the active business of return-to-work and disability management, which we did. Previous to that, for a period of about 15 years, that business was really outsourced. Part of the mandate of the WSIB is to manage in a fiscally responsible way, to provide benefits and also focus on return-to-work and recovery for workers. We brought that business back in. We hired a number of staff who are dedicated exclusively to focus on return-to-work. The result of that plan is that we are seeing better outcomes for workers and we are seeing our costs become more in line with the reality that there are fewer claims coming in.

One of the things we saw in 2010 was, claims were consistently going down, not just in Ontario but across the country, but at the same time costs were going up. So there was a real disconnect. At the same time as we were, in a sense, refocusing our business model internally, the government took steps to make some legislative changes that I think greater clarified the independence of the WSIB as a trust agency. It removed more specifically in legislation any potential influence that a government might have over premium rates, for example. So there were steps taken to ensure the independence was more clear in legislation. Steps were also taken to create a legislated obligation for the WSIB to meet certain sufficiency targets. So we're mandated to achieve, as I said in my opening, full funding—that is, 100% funding—by 2027; meet 60% by 2017; meet 80% by 2022. We're already well ahead of that trajectory.

Those steps were taken, I think, to ensure that the WSIB retained its independence. The point to remember is that 100 years ago, when workers' compensations were set up—Ontario's is 102 years old. Ontario was the first in Canada. It's a model emulated across the country and, quite frankly, across North America. One of the principles articulated by Meredith, the founder of workers' compensation, was an independent governing entity; that is, independence about the management of its fund, independent in the management of its claims, independent in the determination of premium rates. We very much think that independence is important. I think that's clearer now, and the work we've done to meet the sufficiency targets that the government has set for us—as I said, we're on a solid track.

The one thing I would point out, and I didn't mention in my opening: I passed out to each of the members a folder that includes, in particular, a copy of our economic statement. Starting in 2015, we started to produce an economic statement that we released in the fall to correspond with the announcement of our premium rates. We released the second economic statement in early September of this year, again in conjunction with the announcement of our premium rates for 2017. The economic statement itself gives great detail about our trajectory and where we are. It's there for members to have reference to.

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One of the things it does note, though, is that we are also looking ahead to what we need to do beyond 100% to ensure the future sustainability of the system. We believe—and this is consistent with what other workers' compensation systems do across the country—that we should set a target for ourselves to reach a funding level somewhere in the neighbourhood of 115% to 125%, because that way we can ensure that we can withstand any economic downturns—and they will come. We took a huge hit in 2008 that impacted our investments and significantly impacted our funding status. So we'd like to get that level so that we can ensure that in the face of some future economic downturn, we don't have to significantly or dramatically—or at all—increase premium rates or slash benefits to get us back to the funding status that we need to be in.

That's a bit of an overview of where we are in that regard.

**Mr. John Fraser:** Thank you very much. I think I'm out of time.

**The Chair (Mr. Ernie Hardeman):** Hold that thought. We'll get back to that next time around.

The opposition side: Ms. Munro.

**Mrs. Julia Munro:** Thank you very much. I certainly appreciate you joining us today and providing us with the opportunity to ask a few questions and learn a great deal.

I want to ask a few questions with regard to the debt, because as an MPP obviously that is of particular interest to one's constituents. They're aware, at least, of the notion of a debt. They also know that in their own families they have to be able to pay the bills, and many—too many, perhaps—understand the challenges of debt. I want to ask a couple of questions around that simply because it's the third most expensive part of day-to-day government. When you tell people that it comes after health and education, it generally comes to people as quite a shock. Recognizing that they can't operate their households that way, they're certainly motivated to learn more about what happens at this level.

One of the questions: Who owns the bonds?

**Mr. Gadi Mayman:** Our bonds are sold both in the domestic market, in Canada, and internationally, globally. We have a target to issue at least 75% of our debt in the domestic market, and we've exceeded that amount. In the last number of years, there has been over 80% that has been issued in the domestic market. That doesn't necessarily mean that it's only Canadians that buy it, because these bonds are freely traded. So there could be a large pension fund in the US or someone like BlackRock, a large investment fund, that has an interest in owning Canadian-dollar bonds. We also issue up to 25% in international markets, mainly in US dollars. Again, that doesn't necessarily mean that there aren't Canadians that own it. Our estimate is that about three quarters of our debt is held by Canadians and about a quarter of it is held mainly by Americans but also by bondholders from around the world.

**Mrs. Julia Munro:** Thank you. That is the kind of question that people are curious about: Who do we owe money to? I think it is important for that kind of understanding.

As well, I just wanted to ask about how competitive it is to seek that money in those bonds, because it seems that you can find people who need to borrow money pretty easily. It seems to me that it's a buyer's market. I just wondered if you have any comment. Do you notice that it's difficult? Is it competitive or are people waiting to sign up?

**Mr. Gadi Mayman:** It actually is not easy, but it also has not been difficult for us to issue bonds in the last number of years. There has been great demand for Ontario bonds, both domestically and internationally.

One of the ways that we look at that is where our spreads go. A spread is what interest costs we pay over the underlying government of Canada bond. The government of Canada bond is the risk-free bond in Canada—and how much we pay above that.

Our spreads have actually come in over the last couple of years and they have particularly come in relative to other provinces in Canada, which are among our main competitors within the domestic market. We've seen our spreads move in, relative to every other province in Canada, with the exception of BC and Quebec, which have stayed about the same as ours. But in every other province, their spreads relative to the Ontario spread have become wider.

In terms of interest in our bonds, there is widespread interest. We work hard at making sure that that widespread interest is maintained. We do that in a number of ways. One is simply by talking to investors. We have an active investor relations program. That is done through a variety of means. The Ontario Financing Authority has a website that contains all of the data that anybody could possibly want about our debt. I find it interesting and I am sure there are some other people who do as well. It goes into a fair bit of detail. All kidding aside, there are investors that will look at that and will look at how we do things.

We also go and meet with investors. I regularly meet with the sales force from the various banks that underwrite our debt and talk to them about why they should buy our debt. We've met with a very receptive audience over that period of time.

One of the other things that we do in order to keep our debt attractive is that we listen to what investors have to say. One of the things that they tell us is, "We want something that's liquid." By liquid, they mean something they can get in and out of. What we've done is we've modified our borrowing program over the last number of years so that we now reopen bonds on a regular basis. What I mean by reopening is that we'll issue a 10-year bond. Instead of just issuing that 10-year and then the next time we go to issue a 10-year bond doing another 10-year bond that is three weeks different in maturity, we will just keep reopening that 10-year bond and that 30-year bond that we do, the five-year bond—those are the three benchmark bonds that we have.

What that ends up doing is it makes these bonds larger and more liquid, which means that investors have the opportunity to trade in and out of them. They like that and they pay for the privilege of being able to do that. So that's one of the other things we do.

The third thing that we do to provide a little bit of a difference from others—particularly within Canada, although we would like to see others in Canada join this as well. We've initiated a green bond program. The proceeds of that program are specifically dedicated to green projects. These projects are—there's an organization out of Norway called CICERO which assesses and makes sure that the projects that we're putting the money into are green projects. The bulk of our two green bond issues so far has gone into Metrolinx projects, but there have been some hospitals, and there has been a residence at one of the colleges that also use the proceeds from the green bonds.

We have also had the Auditor General's office follow—not whether it's green or not, that's not their responsibility, but make sure that when we've identified something as green, to make sure that the money actually goes to those projects. We follow that.

The green bonds have been another source of making our overall debt program more attractive to investors.

**Mrs. Julia Munro:** Now, just because you've finished explaining that, I was just going to ask you: Have you noticed any kind of trending? Is it more likely that a Canadian investor would invest in a green bond, or is it just as likely that it would be an offshore?

**Mr. Gadi Mayman:** It's actually the other way around. Canadian investors have not been as active in this market as others, which is one of the reasons why we've tried to establish this market.

One of the things, when we started working on the green bond file, was—we were told by the investment banks that were advising us and investors that we talked to, "Well, please issue them in US dollars or Euros, because that's what we want." And we said no for two reasons. First of all, our projects are Canadian-dollar-based, so we want to finance in Canadian dollars. If we do it in foreign currencies, we would, as we do with everything else that we issue in foreign currencies, swap it back to Canadian dollars. But that's an extra step that we didn't think was necessary. For that reason, we wanted to establish a Canadian green bond market.

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The other thing that we wanted to do by establishing a Canadian-dollar green bond market was to encourage others to do this, because once there are more people issuing green bonds, then investors will come to the marketplace because of the liquidity that I talked about before, and the variety that they have will make it more attractive to them.

So we have been active in the Canadian-dollar green bond market. Most of the investors that we've had in our first two green bonds have been Canadian investors, but we have had international investors. One of the things we're happy about with that is that we've had a number of investors that have come into our two green bonds from outside of Canada that have either never bought our bonds before—so the fact that we made them green means that we got a new investor—or they've bought our bonds before, but only the US-dollar or Euro-denominated bonds. This is the first time they've bought our bonds in Canadian dollars. So the Canadian-dollar green bond program is very important for us.

**Mrs. Julia Munro:** I wanted to also ask you: When you were explaining the optimization of being able to have a long period of time which would appeal to certain investors, how might that be impacted by a significant inflationary situation? Are you risk-free in a situation like that when there are long-term bonds, or is there a risk?

**Mr. Gadi Mayman:** As issuers, we are risk-free in that we've locked in the coupon that we're paying. If we issue a 30-year bond, we lock that in for the full 30 years. It doesn't matter what happens between now and 2046; we will continue to pay that 3% or 2.5% coupon every six months for the next 30 years; so we've protected ourselves.

One of the things that we do worry about—and we're not expecting it to come, but we're preparing for it in case it does—is if interest rates rise dramatically. If they just rise by a little bit, as the expectation is now, that's fine. What we're protecting ourselves against is if they rise more than what's expected. Because we've managed to extend the term of our debt so much over the last five or six years, if that were to happen, if there were to be a spike up in interest rates, we could then issue shorter-term debt. We could go what we call "down the yield curve"; we could issue three- and five-year debt, as opposed to the 10s and 30s that we focus on now. While we have no risk in terms of the coupons that we pay on the debt that's outstanding, obviously new debt will be at whatever the market rate is. We've ensured that we have flexibility, if we need to, to shorten the term of the debt.

You mentioned investors; I think that's an important point. There are a number of investors that are very interested in long-term debt. Pension funds and life insurance companies have liabilities that are very long-term and they want to match those liabilities, so we provide an opportunity for them to do that by issuing the long-term debt. That's why we've been able to issue close to $60 billion worth of 30-year debt over the five-year or six-year period that I mentioned in my opening remarks.

**Mrs. Julia Munro:** I think that's it for me.

**Ms. Lisa MacLeod:** How much time do we have?

**The Chair (Mr. Ernie Hardeman):** You have about nine minutes.

**Ms. Lisa MacLeod:** Thank you very much. I'd like to ask a couple of process-related questions before I get into some of the net-debt-to-GDP ratio.

In terms of this process, it's pretty standard. This is the second time, I think, in two years we've had you folks in with respect to chapter 2 in the auditor's report. I'm just wondering what the process is in terms of how both the Ministry of Finance and the Treasury Board ministry work with the auditor, how long that process is and what the exchange of relevant documentation would be.

**Mr. Greg Orencsak:** Sure, I can speak to that. A lot of the things that we do in terms of the financial management of the province are shared between the President of the Treasury Board and the Minister of Finance. As you probably know, there are various acts in the Legislature that govern our financial management processes. I spoke to a couple of those in my opening remarks, in terms of the Fiscal Transparency and Accountability Act and the Financial Administration Act.

The Fiscal Transparency and Accountability Act would have direction and guidance in terms of the preparation of the province's annual budget, for example; what a budget document would need to include. But also it would have guidance and direction around the principles of the government's financial planning framework as well as regular updates to the province's finances and economic performance on a quarterly basis. The Financial Administration Act would lay out the important tenets of financial management. To express that in the simplest of terms: that's about how the province manages cash on a day-to-day basis, how it keeps track of expenses and revenues, and also how the province does its financial reporting and how the province prepares its financial statements that would form part of the public accounts of Ontario.

Preparation of the public accounts is a shared responsibility between the Minister of Finance and the President of the Treasury Board, so Scott's ministry and my ministry would work together on that. The planning for the public accounts every year would begin fairly early in the spring or late winter, really, going back to January and February, and would probably begin in earnest in February, when we begin to work with the auditor's office in terms of the audit plan for a particular year. That audit plan would look at the audit findings report from the previous year's audit; I think that's a good jumping-off point in terms of the issues that would be part of the Auditor General's examination of the province's financial statements.

The planning report is prepared by the Office of the Auditor General. We do work closely with the auditor's office, and they consult us in their audit planning work. We then spend a few months working through the various steps, requirements and information exchanges and requests that are made by the Auditor General and her staff. We would provide accommodations for the Auditor General and her staff on our premises to facilitate some of that work, and we obviously provide access to information and whatever else the Auditor General would require in the context of that work.

The Financial Administration Act also stipulates a timeline for the tabling of public accounts, which is 180 days after the fiscal year-end.

**Ms. Lisa MacLeod:** I don't think I have enough time—how much time do I have?

**The Chair (Mr. Ernie Hardeman):** Four minutes.

**Ms. Lisa MacLeod:** Four minutes. I wish I had a full 20.

My next question—I have two. The first is: At any time, does the Ministry of Finance or the Treasury Board have to hand over to the Auditor General, prior to her opinion being produced inside the public accounts, a disclosure that everything is truthful and that there has been nothing fraudulent provided, and when would that type of disclosure or accountability to the Auditor General typically occur?

**Mr. Greg Orencsak:** I see that. Obviously, I'm not involved in all parts of that work, but I do take responsibility for that work taking place. That is almost a continuous process. Management takes responsibility for maintaining systems of internal control. Those systems of internal control are particularly important in terms of ensuring the integrity of the province's finances, in terms of ensuring the integrity of the province's financial reports and in terms of ensuring the integrity of how we keep track of the money.

From an inside-government perspective, we have developed what's called a certificate of assurance process in which we provide assurance to the Auditor General and her staff that, with regard to those systems of internal control being in place—that is a cascading process, as you can imagine. We are a $130-billion-a-year corporation, there are literally hundreds of thousands of different financial transactions that need to be kept track of, and the certificate of assurance process cascades from the program delivery organizations up through management and senior leadership that allows folks to provide an attestation to the Auditor General.

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**Ms. Lisa MacLeod:** At any point, does a letter from your or your colleague—from management—go to the auditor, and at what point in the process would that happen?

**Mr. Greg Orencsak:** There is a letter; there's something called a management representation letter. It's a letter that is part of the standard auditing process and procedures.

**Ms. Lisa MacLeod:** And that would have occurred in the public accounts of 2015? You would have provided that?

**Mr. Greg Orencsak:** For the 2014-15 year.

**Ms. Lisa MacLeod:** And so that would happen in subsequent years, such as, i.e., 2016?

**Mr. Greg Orencsak:** That would happen in every year. There is a management representation letter, and the management representation letter is, again, part of—

**Ms. Lisa MacLeod:** Just theoretically, would that have gone—for example, during this current period, would you have provided the auditor with that type of letter at this point, for example, in 2016? Obviously we'll be doing chapter 2 again in December, so would that have been forthcoming?

**Mr. Greg Orencsak:** The way that that works is that management representation is provided at the same time. It's kind of the final step in the process.

**Ms. Lisa MacLeod:** So she would have that, then, for this year, for 2016.

**Mr. Greg Orencsak:** It's the final step of the process, and it happens when management provides a representation letter—

**Ms. Lisa MacLeod:** So, no, she hasn't received it for 2016, but received it for 2015?

**Mr. Greg Orencsak:** You've asked me to explain the process. If you will allow me to finish—

**Ms. Lisa MacLeod:** Oh, no; I'm just asking a direct question.

**Mr. Greg Orencsak:** If you'll allow me to finish my sentence, I will answer your question. As part of the management representation process—it's kind of the last step of the audit—we provide a management representation letter to the Auditor General, and the Auditor General provides an audit opinion at the same time. The letter of management representation is dated the same day as the audit opinion.

We have now received the Auditor General's audit opinion for the audit of the 2015-16 public accounts. That took place today.

**The Chair (Mr. Ernie Hardeman):** Thank you very much. We have to stop it there and hold the thought and move on to the third party: Ms. Fife.

**Ms. Catherine Fife:** Thank you for being here. The timing for your appearance here, obviously, is very fortuitous in some respects. I must tell you, Mr. Teahen, that I did mention you in a question this morning.

**Mr. Thomas Teahen:** I heard that, yes.

**Ms. Catherine Fife:** Now you're extra-famous. But I wanted to question the President of the Treasury Board on why the WSIB financial statements had not been filed. I've just checked the website, and the statement is not there from the WSIB. Can you give me insight as to why that would happen?

**Mr. Thomas Teahen:** I can start. Just to clarify, when you say you checked the website, did you check the WSIB website, or which website are you speaking of?

**Ms. Catherine Fife:** No, I checked public accounts, where WSIB is supposed to file their financial statements.

**Mr. Thomas Teahen:** So the process that we go through is that once our financial statements—and we're on a calendar-year basis.

**Ms. Catherine Fife:** Yes.

**Mr. Thomas Teahen:** Once our financial statements are approved by our board of directors, we submit them to our minister, the Minister of Labour. I have a copy of the letter that was dated in April—I think April 29—where our financial statements for 2015 were sent—

*Interjection.*

**Mr. Thomas Teahen:** April 29? Yes. Our financial statements for 2015 were sent to the minister. After they go to the minister, I can't speak to when they get tabled. That's a process that the minister and, I think, the government goes through. What I can say to you is that in 2012, we started a process at the WSIB to report quarterly on our finances. We publish what's called a quarterly report to our stakeholders, which is essentially a quarterly financial report. We post that on our website every quarter.

Our Q4 report for any given year essentially wraps up our annual finances and would correspond to what is in an annual report. Our Q4 finances are posted on our website. In fact, our Q1 2016 finances are reported on our website.

**Ms. Catherine Fife:** And that's a responsibility that you have to your stakeholders, to publish those on your website.

**Mr. Thomas Teahen:** That's a responsibility that we took on. We don't have a legal responsibility to do it.

**Ms. Catherine Fife:** It's just good accounting practice, right?

**Mr. Thomas Teahen:** It's good accounting. And the reason we did it, I'll say, is because sometimes there has been a lag in terms of when the annual reports get tabled. So to address the lag, we simply, on a quarterly basis, report our finances so we can be as transparent as possible.

**Ms. Catherine Fife:** Were you surprised to learn, though, that your financial statements for the WSIB are not in the annual report of consolidated and financial statements for 2015-16?

**Mr. Thomas Teahen:** Was I surprised? I wasn't aware that they weren't. I would have thought they might have been. As I said to you, I know that they went to the minister in April, and they go through their typical process. I don't know exactly when they will be tabled, so I can't speak to that. I'm sorry.

**Ms. Catherine Fife:** I think we're all waiting for the auditor to sign off on the financial statements, and then they will be tabled. These are unaudited right now.

**Mr. Thomas Teahen:** I did read the Hansard transcript from this morning, and I understand that Minister Sandals did indicate that everything she requires from the WSIB she has. So that's all I can speak to.

**Ms. Catherine Fife:** Just to be clear, though, it's not what Minister Sandals needs; it's the transparency that the people of this province also need, and they need to see this as a record of our public accounts. I hope that the minister makes sure that that statement is posted.

On a previous question, you were talking about the positioning around the WSIB continuing forward as a trust, which I think is referenced in the auditor's original chapter 2. But you mentioned something really interesting for me because you said that once the government made the decision to take the politics out of the premium rates and maintain the independence—you stated this: that you feel that it's important that the WSIB be independent, that it be an independent trust and that you refocused your business model.

I'm curious to know what you feel the mandate is. You will know that as MPPs, we hear a lot from the voices of workers on the level of compensation that they are not receiving and the due process that they have serious challenges with. You mentioned that you brought in some financial controls. You even made a 5% reduction on the average premium rate in 2017. Is that right?

**Mr. Thomas Teahen:** As I've mentioned to you, we announced our 2017 premium rates three weeks ago, in the second week of September—

**Ms. Catherine Fife:** And there was a reduction in the rate.

**Mr. Thomas Teahen:** For 2017, there will be a reduction in the average rate. We publish an average premium rate each year. There will be a 5% reduction in the average rate for 2017. That has different impacts. We have 120 or 130 different rate groups, so the specific—

**Ms. Catherine Fife:** What are the projected savings to WSIB by reducing the premium rate by 5%?

**Mr. Thomas Teahen:** We don't have a projected savings. In fact, what that means is that we project that approximately $250 million less in premium revenue will come into the WSIB next year as a result of the premium rate decrease.

It's important to note that in our average premium rate—our average premium rate for 2017 will be approximately $2.46. Of that $2.46, approximately $1.10 to $1.15 is specifically dedicated to retiring the unfunded liability. As the unfunded liability has reduced from $14.2 billion to $5.6 billion, our ability to decrease the amount of premium rate required for the unfunded liability has also gone down, and that's what has allowed us to proceed with that rate reduction.

**Ms. Catherine Fife:** Of that $250 million, though, do you see that there would be a reduction, then, in payments to injured workers going forward?

**Mr. Thomas Teahen:** No—

**Ms. Catherine Fife:** How can you guarantee that? How can you make some—

**Mr. Thomas Teahen:** To the contrary: In fact, because our financial sustainability has improved, we've been able and we'll be able to make investments in workers and benefits that we otherwise would not be able to make.

I'll give you an example. In 2018, in conjunction with legislation passed by the government, we will be implementing full indexation for all workers' benefits. Currently, certain workers are indexed at full inflation, and another group of workers receive only partial indexation. In 2018, we will be implementing full indexation for all worker benefits. That is an additional $1 billion that goes on our liability. The reason we're able to do that is because we're in a financially better situation.

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**Ms. Catherine Fife:** The reason I'm addressing this is that when you mentioned your refocus on your new business model, you also tied that in to return-to-work timelines, because you had outsourced that previously, right?

**Mr. Thomas Teahen:** Correct.

**Ms. Catherine Fife:** So you've brought that in-house?

**Mr. Thomas Teahen:** Yes.

**Ms. Catherine Fife:** Who is doing the analysis on that new direction that WSIB is going, around return-to-work? There are obviously savings for the WSIB if workers go back to work earlier, but we are hearing that those workers are sometimes going back to work before they're ready to go back to work.

**Mr. Thomas Teahen:** Let me address it this way: The focus on return to work is not just a focus on the Ontario WSIB. In fact, every worker's compensation system across North America, quite frankly, understands the importance of helping workers recover and get back to safe work.

Our model is not a creation of our own but in fact is modelled on studies and recommendations from organizations such as the Canadian Medical Association and the Ontario Medical Association. So we didn't come up with this entirely ourselves. We built our own model, which includes our own people, whom we call, as I think I said, return-to-work specialists or work transition specialists. We didn't have those people in our organization seven or eight years ago.

One of the things that has changed in workers' compensation—and in fact, I think it has changed generally in the medical profession disability management across the board—is a recognition that return-to-work is incredibly important. We know that from dealing with workers. They want to get back to work. An effective return-to-work program that helps them transition back to work is important.

**Ms. Catherine Fife:** I don't think the Canadian Medical Association is endorsing a return-to-work strategy when that worker is not ready.

**Mr. Thomas Teahen:** I agree. They're not doing that, and nor are we. It doesn't help us to get someone back to work before they're ready, because they end up coming back on.

**Ms. Catherine Fife:** As you've moved into this new direction—it sounds like you're streamlining; you're bringing some services in-house with this new business model—do you track the WSIB cases that have been appealed to the appeals resolution office and measure that against—because you have to have a comparator to make sure that a policy is actually working, right?

**Mr. Thomas Teahen:** One of the comparators is an important one that I noted in my opening remarks. Today, 92% of workers are back to work within one year without any wage loss. Before we reintegrated that program into our system, that was about 55%. So that's an important measure that we look at.

**Ms. Catherine Fife:** You've been tracking since 2008? How long have you been tracking the appeals?

**Mr. Thomas Teahen:** That's not the appeals. So I'll speak to appeals. We've been tracking the appeals volumes—I went to the WSIB for the first time in 2010. As chief corporate services officer, I was responsible for appeals. We were tracking them then. At the time, there was an inventory of appeals in our internal appeals system of approximately 10,000 cases. Today, we have an inventory of about 2,200 cases, because we're moving cases through more quickly and there are fewer cases going to appeal. We've been able to ensure that if you put an appeal into our internal system, 90% of the time you'll get that appeal heard within six months.

Appeals may go outside of the WSIB, to the tribunal. There is work to be done for us with the tribunal in terms of how we help them deal with the backlog there. There's a new chair at the tribunal now, and he and I are going to be working together to try to remedy that.

**Ms. Catherine Fife:** One of the reasons I'm trying to get at this is that a financial statement—and I think that this goes back to the Auditor General's report—should very clearly indicate where the money is going in an organization and what the return on investment for new strategies and new policies are. I find this document that you shared with us today very interesting because you do point out that the WSIB covers 5.3 million workers, over 300,000 businesses, and that you collect $4.5 billion of premium revenue annually. That's a lot of money. Of that, almost half, $2.3 billion, was spent in benefits to injured workers. But then you pay nearly $300 million each year to cover the cost of programs outside the WSIB, such as funding for the Ministry of Labour, the office of the Chief Prevention Officer and health and safety associations.

So what I would be looking for is: As you pay that $300 million to the government and to the staff at the Ministry of Labour and the Chief Prevention Officer, have you done a value-for-money audit?

**Mr. Thomas Teahen:** Those are legislative obligations. Those are obligations that we, by legislation, must pay.

**Ms. Catherine Fife:** So there's no value for money?

**Mr. Thomas Teahen:** No, there is—well—

**Ms. Catherine Fife:** Well, who does that? The auditor should.

**Mr. Thomas Teahen:** We work with the ministry. For example, we have a health and safety committee inside the WSIB. We work with the Chief Prevention Officer to work in collaboration on the programs. The legislative obligations that we pay are just that: They're legislative. Part of the premium that we collect from employers is required to pay, for example, for the health and safety associations and the health and safety system. That is part of the premium, and to the extent that some of those programs are administered by the ministry, the ministry sends us a bill every year, so to speak, to indicate what the obligation is for that particular year.

Now, that's clearly set out in our financial statements. You can—

**Ms. Catherine Fife:** If I had your financial statements, I would be able to refer to them.

**Mr. Thomas Teahen:** And I would say to you that the Q4 2015 financials are on our website. They've been there since they were approved by our board in April. That's why they're there: In case there's a lag in terms of the annual report, our stakeholders can go and see what our financials look like.

**Ms. Catherine Fife:** Okay. How much time do I have?

**The Chair (Mr. Ernie Hardeman):** You have about five or six minutes.

**Ms. Catherine Fife:** All right. Also, I thought it was very interesting that you invest over $25 billion in reserve to pay future payments on past claims. That would be part of your financial statements?

**Mr. Thomas Teahen:** Yes.

**Ms. Catherine Fife:** Okay. So I look—

**Mr. Thomas Teahen:** But that's part of our obligation to ensure that we have the money to pay for future benefits.

**Ms. Catherine Fife:** Future benefits, yes. Okay. I'd like to take the conversation a little bit over to infrastructure funding and the reporting of infrastructure funding for the province of Ontario. When I read the auditor's analysis of chapter 2, I think she was looking for greater clarity and readability, if you will—a more user-friendly version. There's a lot of talk about infrastructure funding and the spending of infrastructure funding, and it was actually referenced in a previous comment.

In the last budget, just as an example of why I don't think it's very clear, on page 285 there is table 3.24. Now, the government is very fond of talking about openness and transparency, and I will tell you that, as a finance critic, I find it very difficult to follow the money around this place in various ministries, quite honestly. I just wanted to point out that this possibly does a disservice to the average citizen who's trying to find out where infrastructure expenditures are. I'll point to note 4 on table 3.24. It says that the expenditure for infrastructure "includes third-party investments in hospitals, colleges and schools, and provisional federal contributions to infrastructure investments."

Now, in previous budgets and previous charts, the breakdown was very clear between federal and what the province would be contributing and possibly third-party investments. I guess my question would be for finance or possibly for Greg as well. If the government is very proud of the level of infrastructure funding that they claim they are spending, then why would it not clearly be laid out in a table like 3.24?

**1350**

**Mr. Greg Orencsak:** Thanks, Ms. Fife. We certainly welcome those comments and always welcome ways in which we can enhance our transparency. I would point out that section B of the 2016 budget document, starting on page 61, to page 92, has a 31-page description about the government's infrastructure plans. The reason for that is, like you pointed out, there is a lot of spending on infrastructure and it's just as important for us to have qualitative in addition to quantitative disclosure around how capital dollars are spent.

The table on the back of the budget shows you infrastructure expenditures by sector, and the reason it's important how we break those down is that some of these expenditures are amortized on the province's books because of the accounting, and some expenditures, such as expenditures by universities and municipalities, would be flowed through and are expensed in the year that the province transfers its cash payments to those entities.

We are working with our Ministry of Infrastructure colleagues in terms of the requirement of the new legislation that came into place around infrastructure planning, which gives the province an opportunity and imposes an obligation on the government to prepare a 10-year infrastructure plan.

I think your comments are well taken in terms of ways in which the government can bring even more clarity to how these expenditures are tracked. We do like to have a longer-term planning horizon for infrastructure so that people can look ahead. That's what has been motivating our 10-year capital planning so far, because of both the magnitude and the lasting investments that are made through investments in infrastructure.

**Ms. Catherine Fife:** I just have one final comment. I'll give you another example—because we do hear every year the government praise itself for better-than-expected deficit reduction, and that was referenced earlier. For example, in the 2015-16 budget, on page 231, we see a $1.5-billion decrease in other program expenses, some of which is due to the implementation delays related to the Building Canada Fund, which is an infrastructure program—

**The Chair (Mr. Ernie Hardeman):** The member is right. That is the final comment.

We have about 17 minutes per caucus to go around again. I just want to point out that we are dealing with chapter 2 of the Auditor General's report, so I ask all the members, this time around, to stay close to the topic at hand, as opposed to the generalities of public accounting.

With that, we will start with the government for the second round. Mr. Baker.

**Mr. Yvan Baker:** Just to follow up on the discussion that was just being had by Ms. Fife and Mr. Teahen regarding your financial statements: I know that you post them on the WSIB website, but my understanding is that they are available in the public accounts, in section 3, page 121, volume 2(c), if you're looking for them.

My question is actually back to the deputies, and what I want to do is relate this back to the people I represent. When I think about my constituents in Etobicoke Centre, one of the things that I hear about a lot is that some people are trying to do more with less. I know that includes the government and that applies to how you've been managing our province's finances. As an example of that, there are now 6% fewer full-time employees in the civil service compared with 2008. Could you speak to what else the government is doing to ensure it is bringing costs down and what results have been achieved so far?

**Mr. Greg Orencsak:** I'll take that question, Mr. Baker. Thanks for the question. It certainly gets to the heart of the Treasury Board Secretariat's mandate in terms of not only doing with less but doing so without harming outcomes. I think an outcome-focused planning approach has been critically important in terms of informing the work of Treasury Board and the advice that we provide to Treasury Board in terms of the decisions that are necessarily required to make do with less and to not harm outcomes.

We do that mainly through the program review, renewal and transformation process. The program review, renewal and transformation process is a fundamentally new and, to some extent, different approach to multi-year planning and budgeting. It's designed around four fairly simple but important principles that inform our planning.

The first principle is the need to really examine carefully how every government dollar is spent to make sure that each of those dollars is stretched as far as reasonably possible.

The second principle is the use of evidence to inform better choices and improve outcomes. I think that we are often dealing with complex program delivery issues and complex areas of public policy. We're not alone in that. There are other governments and other jurisdictions that deal with similar challenges—I like to think of them as opportunities—so it's important that we do use the best available evidence to inform options for decision-makers.

The third principle is looking not only vertically but also sideways: looking horizontally across government to find the best way to deliver services. I think that comes alive most directly when we think about the clients whom a particular service actually provides services for. If you look at government programs in a silo, you might find that each of those programs might serve the same clients. If you change your perspective and look at what the client thinks of government, they will necessarily take a more horizontal view because they will be less prone to differentiate one ministry from another and, frankly, one level of government from another. That's an important principle in terms of thinking horizontally about how we provide services.

The fourth principle is to take a multi-year approach to find opportunities to transform programs and achieve savings. We have an annual budgeting cycle and we have a quarterly reporting cycle, but as we all know, some of the transformation that governments are often faced with in terms of implementing and delivering presents a multi-year challenge. We want to make sure that we do provide support for those multi-year opportunities so that those transformational initiatives can be effectively designed and implemented and that we have resilient ways in which we can deliver on that kind of transformation.

In terms of getting the most out of every dollar and making do with less, the government has had savings targets in place, including a $250-million savings target—it was called, I believe, the program review savings target—for the 2014-15 year. That target was met through a number of initiatives that helped result in delivering savings. Some examples of that would be using the government's buying power to negotiate better deals and negotiate lower prices for goods and services that the government consumes.

We continue to look for internal efficiencies. One area where we've been successful in terms of finding ever-increasing internal efficiencies was in our information technology operations. We've been able to drive out costs from our data centre operations as well as our desktop and service management operations.

We've been modernizing different program areas across government, including the government's Natural Resources Management Program, but we've also looked more broadly, in terms of operational and administrative savings, including reducing the government's office footprint, which helps reduce costs and save overhead such as electricity, and we've been very prudent in terms of how we've been managing discretionary costs such as the cost of supplies and travel.

**1400**

In the 2015 budget, the government also announced a number of further opportunities that have been informed by the program review, renewal and transformation process, including looking at things like the government's tax expenditure programs. There have been certain tax credits that have not been delivering outcomes effectively and that have been modified or curtailed, as well as modernizing some of our more front-facing programs, such as those that are delivered by ServiceOntario.

**Mr. Yvan Baker:** Thank you very much.

Just before I move on, I wanted to slightly correct my record, if I could, as to what I said at the beginning, at the outset, on the posting on WSIB statements. I shouldn't have said "public accounts"; I should have said that they're in the financial disclosure that was presented by the government. So I just wanted to clarify that.

**Ms. Catherine Fife:** But they're not in public accounts?

**Mr. Yvan Baker:** Yes, and that was my mistake, so I'm clarifying that.

Deputy, did you want to—

**Mr. Scott Thompson:** Yes. I was wondering if I could supplement Greg's answer.

Greg talked a lot about squeezing as much as we can out of every dollar. Part of my responsibility is making sure that we get that dollar. We spend a lot of time in the budgets every year on the underground economy and trying to address tax fairness and address some of those parts of the economy that are not contributing back the tax dollars that are owed. You'll be familiar with some of this because of your role on the Treasury Board.

We've been consulting with some of the high-risk sectors where some of this activity is more prevalent. We've been partnering with industry and gaining insight into some of the challenges they're facing and how to tackle the underground economy.

We've been collaborating with the federal government. The collection of taxes is a shared responsibility, so we need to work with them jointly. We work with the CRA in trying to address some of those.

We also require compliance with all tax measures for any business doing business with this government. We make sure that they've verified their compliance with all tax obligations for corporations. It's an important point if we're going to be partnering with them.

We've also been taking measures like some pilots on residential roofing projects. We're also looking at other sectors of the economy where we could be doing the same thing.

As well, we're looking at electronic sales suppression, where some companies, some stores, may be using devices to avoid reporting the taxes that they're collecting. That really speaks to that level playing field about tax fairness because, if one company is collecting the taxes and remitting them and another company is collecting the taxes and not remitting them, then that's something we need to worry about, both from a fairness and a revenue perspective.

I wanted to complement Greg's point because both of these are important components of tackling the overall fiscal plan and the deficit.

**Mr. Yvan Baker:** Thank you very much.

**Mr. John Fraser:** Chair, how much time?

**The Chair (Mr. Ernie Hardeman):** You have about six and a half minutes.

**Mr. John Fraser:** Deputy Orencsak, you mentioned earlier in your remarks that the C.D. Howe Institute had given positive feedback about our government's reporting. To the average person in Ottawa South, they don't know what that means. Can you tell us why that's significant or what that means in simple language?

**Mr. Greg Orencsak:** Sure. I'll do my best to do that.

The C.D. Howe Institute, for the last number of years, has done a survey and an assessment of the financial reporting by every province and the federal government. I think they call their reporting the transparency and fiscal accountability report.

As I mentioned earlier in my remarks, Ontario has earned consistently high scores of A or A- in recent years in the institute's grading system. They look at a variety of factors, both in terms of the variance between projections and actual results and how accurately governments have been forecasting their expenditure needs and their revenue expectations.

The other aspect that was highlighted from the institute's report was that Ontario's presentation of its consolidated financial statements was an important strength, something that we fared very well in with regard to other jurisdictions. That's important, and that is one of the hallmarks of transparency that comes with the way in which we prepare our financial reports.

The way that comes alive, I think, for the average reader—certainly for your constituents, but legislators as well—is that in Ontario we have the government's annual budget plan, as well as the government's estimates that are tabled in front of the Legislature, and the government's results, as shown in the public accounts, determined on the same basis. What this does is that it helps to make those documents comparable to readers, and it's easier to track spending between plans—what the Legislature has approved and actual results at the end of the year for various expenditure items. That sounds easier than it is, actually, because it requires our systems of internal control to be aligned, and it requires our planning processes to be well aligned.

One of the things that I get to do as part of my job is not only speak to legislative committees like this one, but also to legislative committees for the House of Commons. A few months ago, the federal committee on estimates asked one of my colleagues and me to go to Ottawa and to talk to your federal colleagues and federal legislators about Ontario's experience in terms of how we do our financial planning and how we prepare our statements on a consistent basis, because it is a direction that the federal government and the federal treasury board secretariat is looking to move in.

Another benefit of having alignment is that the processes can play themselves out much more quickly. Oftentimes, federal expenditure estimates do not get tabled in the House of Commons, for example, until well after an actual budget is tabled. That leads to unnecessary confusion. That makes it more difficult for those legislators to actually compare what's going on, because they often receive information much later than the budget document, for example.

So I think they've been working hard in Ontario to make everyone's lives easier—from the average readers of our financial statements to investors, to people who buy our bonds and, obviously, all of you as legislators and members of this assembly.

**The Chair (Mr. Ernie Hardeman):** That concludes your time.

We'll now go to the opposition. Ms. MacLeod.

**Ms. Lisa MacLeod:** I just have two fairly quick questions, and then I'll cede the floor.

Just to follow—back to Treasury Board—where we left off: We got to the point where you said that this year there has been, I guess, a transaction between the auditor's opinion and your management representation letter. So that has happened. Presumably, it's happened in the past as well for 2014. Once you receive that, how quick of a turnaround time does it take to actually print and then table that document in the Legislature?

**1410**

**Mr. Greg Orencsak:** Great question. The way it works is that once we have exchanged those letters and we have an audit opinion from the Auditor General, the next step is for the public accounts to be finalized. Part of finalizing the public accounts requires the government and the ministers that are responsible for the public accounts to lay it before the Lieutenant Governor in Council.

Once the Lieutenant Governor in Council approves the public accounts documents, then we get them printed and get them ready for tabling in the Legislature. Once the documents are tabled in the Legislature, the public accounts document itself and all of its components are made public.

We expect that to take place very expeditiously, Ms. MacLeod, especially given the need to ensure that there is absolute transparency in terms of the province's financial results. I would expect that to take place very, very shortly.

**Ms. Lisa MacLeod:** Okay, so you would expect before the Auditor General's report this summer—

**Mr. Greg Orencsak:** Oh, yes. I think it's a matter of days.

**Ms. Lisa MacLeod:** Okay. I have a quick question just on the ratio of net-debt-to-gross-domestic-product. It was in this report—figure 3. We were at 39.5%. I believe somewhere, I had it—it just shows that it has fluctuated over the years in the auditor's report. I'm bouncing around here. I may have lost where I was. It's hovered between—

**Mr. Scott Thompson:** Page 46, maybe?

**Ms. Lisa MacLeod:** Yes. In the auditor's report it is 49, and then you're telling me—okay, so 46. In the middle of the page, that is projected to be 39.9% in each of 2015-16 and 2016-17. It has dropped to 39.3%. It has been as high as 40.5%. You get into dangerous territory, I recognize, around 60%. I'm wondering: Is the projection in 2015-16 still 39.9% or, due to the dispute that we've seen in the public recently, is it higher?

**Mr. Scott Thompson:** The addition to the accumulated deficit that was addressed in what we released on Monday in our financial statements does add to the net debt. It's different from total debt. Total debt is the cost of borrowing, what we owe. Net debt takes into account other variables: either non-monetary, non-cash assets or liabilities.

That's where the amount added on Monday was put. Accumulated deficit goes up. Net debt goes up. I think the number that we reported on Monday in the financial statements was 40.9%.

**Ms. Lisa MacLeod:** So it has gone up since the projection of last year. I guess it's safe to suggest then that our net debt is growing faster than our economy is.

**Mr. Scott Thompson:** Because of that calculation and that amount added into our accumulated deficit, then in that period of time, 2015-16, net debt did exceed the GDP.

**Ms. Lisa MacLeod:** That's a pretty key indicator that the debt level is growing, and I think that's something my colleague talked a little bit about in the last round. What are you projecting for the following year, for next year?

**Mr. Scott Thompson:** Our latest published documents were in the 2016 budget and we were showing, for

2016-17, it to be 39.6%. We haven't updated that yet. The fall economic statement would be our opportunity to update that.

**Ms. Lisa MacLeod:** When do you think the fall economic statement will be?

**The Chair (Mr. Ernie Hardeman):** That question may be out of order.

**Mr. Scott Thompson:** You tried to trick me there.

I think net-debt-to-GDP is a critically important factor. We pay a lot of attention to it. I know our credit rating agencies and our investors also look at that. It is really important that we keep that on the downward trend.

This was an uptick, for the reasons we've explained, but it's important that we start that down in the same trajectory that it was. You know that the government is committed to working on moving it back towards the 27% level. The outlook for the near future was that it was still going to be plateauing in and around that 39%—now 40%—level. We'll start to work back down.

There are a few things that we need to do to ensure that that trajectory heads back down towards that level. One is a balanced budget. It's important that in 2017-18, as committed, the budget will be balanced. The numbers that were released in the financial statements on Monday did show another $700-million improvement, from $5.7 billion for 2015-16 to $5 billion. The numbers that we show in the budget for the 2016-17 year are in the fours—I think it's $4.3 billion. So it is important that we work down towards that balanced budget, and the government has committed to that.

The economy is growing, so the denominator in that calculation—

**Ms. Lisa MacLeod:** So is our net debt ratio.

**Mr. Scott Thompson:** But the economy is still growing. That's critically important, to make sure that you can move that meter down.

We need to also keep the growth in other non-program-related spending robust, because infrastructure investment will add to that GDP growth, that economic growth. As you know, this government has a strong commitment to infrastructure. That's part of the reason the debt is where it's at, because of that. We need to keep that capital investment going so that the GDP can improve, and the economy improves; the net-debt-to-GDP number will be reduced over time.

**Ms. Lisa MacLeod:** So basically, in order to get that back down to 27.7% and to balance the budget, you're suggesting just to grow the economy through greater infrastructure funding through tax dollars, and to count those assets toward the bottom line?

**Mr. Scott Thompson:** To count which assets?

**Ms. Lisa MacLeod:** The infrastructure assets, toward the bottom line. Is that what you're suggesting?

**Mr. Scott Thompson:** No. I'm suggesting that we have a multi-faceted approach to grow our economy. It's not just infrastructure, but that's an important part. We're spending considerable to do that.

**Ms. Lisa MacLeod:** How will you get down to 27.7% from 40.9%?

**Mr. Scott Thompson:** As I said, the first part is balancing the budget.

**Ms. Lisa MacLeod:** But how do you balance the budget by spending more?

**Mr. Scott Thompson:** Capital investment is important. Some of that gets amortized, so that gets spread.

The stuff that Greg talked about earlier in terms of PRRT expenditure management brings the expenditure side of our equation down as the GDP in the economy bring our revenues through corporate tax, personal income tax and HST up. Once you can hit that balance, then the deficit does not add to the accumulated deficit and the net debt, and therefore you've got the opportunity to grow the economy without more debt.

**Ms. Lisa MacLeod:** What if the economy doesn't grow and our net-debt-to-GDP ratio does? I think that you're hoping that the economy grows—we all do; trust me—we'd love to see more people get jobs but—

**Mr. Scott Thompson:** I would suggest that it's not a hope. If you read our budget and Business Growth Initiative, the document is rife with all of the things we're doing to grow the economy—the skills and training. It's not just infrastructure.

**Ms. Lisa MacLeod:** But it's not growing, so you've projected that—

**Mr. Scott Thompson:** It is growing, and it's growing faster than almost every other province in the country.

**Ms. Lisa MacLeod:** You're basically going to either have to raise taxes or cut services in order to get—

**The Chair (Mr. Ernie Hardeman):** Let's stick to questions and answers and not debate back and forth.

**Ms. Lisa MacLeod:** Sure, just—that's a serious question. I think there has to be more to this than just—I mean, I know it's all about sunny ways, hope and everything with Justin Trudeau and the Liberals, but you don't really grow the economy from the heart out. You grow the economy through lower taxes and lesser regulatory burdens on job creators. You do that through a minimum wage that businesses can keep up to, and I don't see that package.

**1420**

When I'm looking at an increase in the net-debt-to-GDP ratio, and I see—I'm from Ottawa. All I have to do is look at the news today and see the amount of people who just lost their job in my city. I don't think they think the economy's growing.

I appreciate where you're coming from, but I'm not hearing anything very concrete to deal with the government debt, whatever you're projecting for the next two years, based on what I'm seeing from last year and what I'm starting to see from this year.

I don't know how we're going to continue to have the capacity to deliver the services that are required. I don't know how we're going to be able to make life affordable for people based on this plan and the lack of confidence that I have, as well as my constituents have, that the government can go back to balance.

I'll leave that to you to respond, if you like; otherwise, I can pass it on to my colleague.

**Mr. Scott Thompson:** I guess I shouldn't leave it unresponded to. I think we've laid out a plan between the Treasury Board Secretariat on the expense side and Ministry of Finance and government writ large on the revenue side that does give us an opportunity to balance next year. The commitment is there. It takes the hard work of all of us, including collecting the revenue in the first place that I talked about. There's not one thing that's going to put us into balance or out of balance. It's a multi-pronged approach that is dealing with all aspects of the revenue side and all aspects of the expenditure side and the sound management of debt that Gadi talked about earlier.

**Ms. Lisa MacLeod:** Go ahead.

**The Chair (Mr. Ernie Hardeman):** Ms. Munro, you have four minutes.

**Mrs. Julia Munro:** I'll just ask you a couple of questions that relate to the very beginning of your presentations where, again, you were talking about solving the deficit by balancing the budget for 2017-18. One of the items that came up in that part of the discussion was the issue around asset sales. I wonder if you could give us a sense of a couple of things about asset sales that I think would help.

You used the phrase "asset optimization." I think I know what it means, but I'd be happy to hear what you can tell us about what it means. I know it came in the budget, in 2014 actually, when we first saw the ideas around an Ontario pension and there was a line which talked about "unlocking assets." I see it coming up again today, and I want to ask you specifically some mechanics about how that works.

The second part of my interest is: How controversial are the numbers that you come up with for this asset optimization? It seems to me that it would be somewhat questionable on coming to an agreement on the value of assets. How does that work, and how does that make it so that you can feel confident that you will balance the budget in 2017?

**Mr. Scott Thompson:** I should point out, when we get into asset optimization, that the net proceeds that are gained by that asset optimization are all dedicated towards the Trillium Trust. If you've had a chance to look at either the 2015 or 2016 budgets, we talk about the Trillium Trust as being our way of taking the value that we unlock from the assets that you talked about and putting it into the future investments that will help to grow the economy through infrastructure spending. Transit, roads and other infrastructure are all things that we use the Trillium Trust for. For example, the GM shares that I talked about earlier: There was $1.1 billion gained on the GM share sale. That's above and beyond the cost to us. We put that into the Trillium Trust, as well as $249 million that we had already gained from earlier sales of GM shares.

When it comes to other types of assets—real estate: LCBO headquarters, OPG headquarters—both the GM shares and the real estate assets are done in a way to maximize the return to the government and therefore increase the amount that can be reinvested in infrastructure. Looking at strategic divestment of assets like the OPG headquarters or the LCBO headquarters, you have to look at the opportune time and then it's done in a fair and competitive process so you can make sure that you're getting a reasonable return.

**The Chair (Mr. Ernie Hardeman):** Hold the rest of that thought. We now go to the third party: Ms. Fife.

**Ms. Catherine Fife:** I liked the line of questioning around asset optimization, because we hear a lot about asset optimization and it's clearly a relatively new business model for the province of Ontario, post-2014 election. I think it's a valid direction to take the conversation in because the Financial Accountability Officer indicates that post-2017-18, the revenue that we had drawn from Hydro One will be severely compromised, and that will put us back into a deficit position—an operational deficit for the province of Ontario. I am curious to see how—because that will impact, obviously, the money that Treasury Board has, and it will impact the deficit reduction goals, if you will, of the government. Mr. Thompson, would you like to expand?

**Mr. Scott Thompson:** Sure, and I'll let Gadi expand on that a little bit. When it comes to Hydro One, you have to remember that I think the anticipation was, in our documents, that there would be a $9-billion value from the IPO and the share sales. It's important to remember that not only are we dedicating money to the Trillium Trust through that—I think it's about $4 billion—but $5 billion of that goes to debt. When we want to talk about managing our debt and reducing the debt, then it's important that we remember that we are putting a considerable amount of money—more than half of the amount of money from that initiative—into debt.

The rest goes into the Trillium Trust, invested in infrastructure that, again, also helps with debt and cost of IOD—interest on debt—because if we were building that infrastructure and we didn't have the proceeds from that asset, then we would be borrowing more money to build that, and therefore we're also gaining from reduced IOD expenditures.

You talked a little bit about forgone revenue. That is a factor, of course, but I think it's important to remember that through the Hydro One process, we are creating a new company, a new governance model, a new growth-and-innovation-based company that can now look for new opportunities that can grow and create more revenue from—we still own 70%—

**Ms. Catherine Fife:** Sixty.

**Mr. Scott Thompson:** Sixty?

**Ms. Catherine Fife:** Every year it's going to go down by 15%.

**Mr. Scott Thompson:** But we own 70% currently, so 70% of the revenue that it's getting is returned to the public coffers. It's not as simple as loss of revenue; it's also the fact that we are maximizing the revenue for the portion that we still own as well as doing good things with the money that was generated as a result of that.

**1430**

**Ms. Catherine Fife:** I think we can get caught up in the politics of it because it's a very politically challenging concept that you broaden the ownership of Hydro One when, 30% ago, the entire province owned Hydro One.

It goes back to my comment earlier to Treasury Board around the reporting of infrastructure expenditures on behalf of the province. Obviously, the promise was made by the Premier that all of the expenses or all of the revenue that was drawn into Queen's Park from the sell-off of Hydro One would go directly to infrastructure building.

We have seen since 2013-14—in that budget document, it was page 225—it showed $13 billion in budgeted provincial expenditures on infrastructure. So that was when we clearly could see what the province was spending, and it was not including federal, municipal, or third-party contributions. As the auditor had indicated, for clarity purposes, we need to see where that money is coming from.

In 2014-15—on page 265—the government budgeted only $12.3 billion in provincial expenditures for infrastructure, which is a $700-million decline that year. In 2015-16, after you check the footnotes, as I pointed out, we see that the government budgeted only $11.5 billion in provincial expenditures for infrastructure, which is an $800-million decline from the year before.

So you have this promise of a government that is trying to address the deficit, the debt and the economy by investing in infrastructure, and you have, over three consecutive years, a reduction in infrastructure spending of almost $1.5 billion.

That's why these charts matter. That's why accounting matters. I never thought I would say that. It is important to be very clear about where the money is going, because on one hand you have the politics of saying that this important revenue-generating asset is being sold off to invest in infrastructure, and then you have the books, which show that that money is actually not being invested in infrastructure.

From an accounting perspective, because that's we're supposed to be talking about really today—do you not see that the public accounts should be very clearly outlining where infrastructure money is going from the province of Ontario going forward?

**Mr. Greg Orencsak:** Maybe I can take a crack at that. Again, I certainly appreciate your comments, Ms. Fife. I think one of the things that's useful to keep in mind is that you have to look at trends in expenditures over time. I think that was one of the recommendations that we heard loud and clear from the Auditor General in terms of how our annual report can present the information.

Once you look at those trend lines as opposed to year-over-year spending, you will see—especially if you back-cast five or 10 years—that the level of infrastructure investment in the province has been quite significant. In fact, at the $10-billion, $11-billion or $12-billion range, those are still record annual investments in infrastructure.

If you think back to the time of the downturn, where governments came together in a concerted effort to stimulate the economy through infrastructure investments, the annual level of investment has jumped up quickly during the downturn and hasn't really come back much. Those annual variations are not all that huge in the context of overall spending.

**Ms. Catherine Fife:** I'm really happy that you mentioned public accounts. The public accounts matter because they really are an indication of actually what money was spent. If you go back to 2013, on page 16 you see that although the government budgeted $14.5 billion—which, you're quite right, would have been a record—for infrastructure, including contributions from all sources, the government only spent $11.8 billion that year. That matters. In other words, the government failed to spend $2.7 billion that had been budgeted for infrastructure.

If you go back to the 2014 public accounts, you see the government budgeted $14.5 billion but only spent $12.8 billion. So they failed to spend another $1.7 billion that had been budgeted for infrastructure. So the government, over that period of time, failed to spend $4.4 billion.

I just want to be really clear that we are very supportive of infrastructure investment. I think the evidence is there that it does create jobs and does improve productivity from a transit and infrastructure perspective. But this is a trend that I think needs to be clearly outlined. You shouldn't really have to go back four years to find out that the promise of $4.4 billion in infrastructure spending was not realized by this province—because they hold it up, just as you had said, like a record amount of spending when it was not truly realized. And then you pivot that to the politics of the situation, which is the promise of $4 billion in revenue by the selling off of Hydro One. For us, this is a very false choice: that you say to the people of the province, "We are going to sell off Hydro One"—or broaden the ownership, or optimize this asset—with the promise of $4 billion of infrastructure, when the government failed to actually follow through on the infrastructure investment that it had actually budgeted for. So you can see that there's a disconnect there for us.

**Mr. Greg Orencsak:** Again, I appreciate your comments. Maybe if you'll allow me a couple of responses, Ms. Fife—

**Ms. Catherine Fife:** Of course.

**Mr. Greg Orencsak:** The benefit of infrastructure is, it's very difficult to hide physical capital—

**Ms. Catherine Fife:** What do you mean by "hide physical capital"?

**Mr. Greg Orencsak:** Physical capital is buildings, schools, hospitals—

**Ms. Catherine Fife:** Is the government trying to hide physical capital?

**Mr. Greg Orencsak:** I did not say that, so please don't put words in my mouth.

What I would say is, if you look at the 2014-15 public accounts which we are here discussing, and if you look at page 14 of that document, you'll see that it reports on infrastructure expenditures in 2014-15 of $12.8 billion. Those investments are quite significant. And you'll see that the public accounts documents also report that spending was lower than the $14.5 billion set out in the 2014 budget plan, mainly due to lower-than-forecast construction activity. Sometimes changes happen between forecast expenditures and actual expenditures, but that's not the only reason why infrastructure spending may fluctuate year over year.

You've previously used an example and made reference to the Building Canada Fund. As you probably know, the Building Canada Fund is a federal program. Part of what the province has been doing in playing a leadership role in terms of the level of infrastructure investments it has made—it has been looking for the support of its partners to also invest in infrastructure. That could be municipal or federal partners.

If you look at some of our budget documents, you'll see that the province has done well more than its fair share of infrastructure spending compared to other levels of government. In the example you used around the Building Canada Fund, some of that spending did not materialize because federal contributions—federal decision-making at the time didn't materialize in time to effect those expenditures as they were initially planned at the beginning of the fiscal year.

The last thing I would point to is on page 15 of last year's annual report—and this is what I mean by infrastructure being a physical asset. We're able to track the net book value of the province's investments in physical, tangible assets and tangible capital. In 2014-15, that was $97.1 billion, which keeps increasing year over year, whereas in the previous year, that was $90.6 billion. If you put that in context, in a year, the province's stock of tangible capital assets increased by nearly 7%. That's a very fast-growing government program, especially at a time when expenditures are otherwise fairly constrained.

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**Ms. Catherine Fife:** Thank you very much for that. I'm glad you mentioned trends because I think there are trends that affect accounting modelling and accounting practices. One of them is pension assets trends and how governments perceive those pension assets. So, for me, this is obviously very crucial because last year's—I mean part of chapter 2, just so you know I'm staying on topic, is that the auditor makes a point of what it means for her to sign off on public accounts and what it means for her to sign. She says, from chapter 2, "In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the province of Ontario as at March 31, 2015, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards."

She was not able to make this statement about this year's annual report and consolidated financial statements; and the sticking point is, I believe, pension assets and how the government perceives them, how the government views them, and how she views them. Actually, since then I've done some research in how other jurisdictions see pension assets. How does Treasury Board view these pensions as they relate to the bottom line?

**Mr. Greg Orencsak:** Obviously, thank you for the question. If you'll allow me, and if you'll recall the answers to Ms. MacLeod, it's not that the auditor was not able to express an opinion; it's that earlier this week the auditor had not yet expressed an opinion. We have the Auditor General's opinion now, and as I've described to your earlier, the government will be finalizing the public accounts and will obviously be releasing the public accounts with the Auditor General's opinion in them.

The government has explained—and I believe that the Auditor General also commented on this earlier today to media—that the version of the province's financial statements that was made available earlier today has the right bottom line for this year, as well as the right accumulated deficit—

**Ms. Catherine Fife:** So my question to you, sir, was: How does the Treasury Board—

**The Chair (Mr. Ernie Hardeman):** I'm afraid you're going to have to save the question because you've used all your time. We have to end it there.

So, thank you very much to the committee, but even more so to the presenters today for coming here—

**Ms. Lisa MacLeod:** Chair, if I may, just as a point, there were some things that the deputants indicated about the Auditor General—she's here. I didn't know if she wanted an opportunity to respond to that on the record.

**Ms. Bonnie Lysyk:** Sure, I can respond. The last draft set of statements that we got with the change in it was dated September 29, so that was just before the weekend. The opinion was delivered this morning in exchange for the management rep letter. I continue to express the disappointment that the statements were released without our opinion. That's my only comment.

**The Chair (Mr. Ernie Hardeman):** Thank you very much. We thank all the presenters for coming in today and helping enlighten us in the area of the public accounts. Thank you very much.

If the committee will just hold on for a minute as we clear the room to have an in camera discussion as we proceed with the report.

*The committee continued in closed session at 1446.*

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Ms. Bonnie Lysyk, Auditor General

**Clerk / Greffière**
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