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**Select Committee
on Financial Transparency**

**Comité spécial de
la transparence financière**

1st Session
42nd Parliament
Monday 22 October 2018

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42^e législature
Lundi 22 octobre 2018

Chair: Prabmeet Singh Sarkaria
Clerk: Valerie Quioc Lim

Président : Prabmeet Singh Sarkaria
Greffière : Valerie Quioc Lim

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**SELECT COMMITTEE
ON FINANCIAL TRANSPARENCY**

**COMITÉ SPÉCIAL DE
LA TRANSPARENCE FINANCIÈRE**

Monday 22 October 2018

Lundi 22 octobre 2018

The committee met at 1301 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr. Prabmeet Singh Sarkaria): Good afternoon. The Select Committee on Financial Transparency will now come to order. The first item on the agenda is the report of the subcommittee on committee business. Can a member please read it into the record? Mr. Vanthof.

Mr. John Vanthof: Your subcommittee on committee business met on October 17, 2018, to further consider the method of proceeding on the order of the House dated October 2, 2018, and recommends the following:

(1) That the committee meet on Tuesday, October 23, 2018, after the scheduled hearings for the purpose of report-writing.

The Chair (Mr. Prabmeet Singh Sarkaria): The member has moved the adoption of the subcommittee report—

Interjection.

Mr. John Vanthof: I move that the report of the subcommittee be adopted.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof has moved the adoption of the subcommittee report. Any discussion? Are members ready to vote? Shall the motion carry? The motion is carried.

MR. GORDON CAMPBELL

DR. AL ROSEN

MR. MICHAEL HORGAN

The Chair (Mr. Prabmeet Singh Sarkaria): I'd like to welcome our panel here today, but just before we begin, I would like to read a statement on parliamentary privilege and the rights and duties of witnesses. I will give the panel a brief introduction of 10 minutes after I finish the statement and then we will go into 20-minute rounds for questioning.

We will also be taking a couple of breaks and I believe there might be a vote in the House as well, so we would have to recess for that.

Just before we begin, I'd like to read this statement on parliamentary privilege and the rights and duties of witnesses.

Witnesses appearing before committees enjoy the same freedom of speech and protection from arrest and

molestation as do members of Parliament. Furthermore, section 13 of the Canadian Charter of Rights and Freedoms provides that, "A witness who testifies in any proceedings has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for perjury or for the giving of contradictory evidence." Therefore, nothing said by a witness before a committee may be received in evidence against that person in a court of law or similar proceedings, except in a prosecution for perjury where evidence was given under oath. For this reason, a witness may not refuse to answer a question from the committee on the grounds of self-incrimination or that answering might expose the witness to a civil action.

Witnesses must answer all questions the committee puts to them. A witness may object to a question asked by an individual committee member. However, if the committee agrees that the question be put to the witness, he or she is obliged to reply, even if the information is self-incriminatory, is subject to solicitor-client or another privilege or on other grounds that might justify a refusal to respond in a court of law. A witness may ask for clarification if he or she does not understand a question. Members have been urged to display the appropriate courtesy and fairness when questioning witnesses. A witness who refuses to answer questions may be reported to the assembly.

Witnesses must also produce all records requested by the committee. A witness may object to production. However, if the committee agrees that the document is to be produced, the witness is obliged to do so. A refusal or failure to produce a document may be reported to the assembly.

A refusal to answer questions or to produce papers before the committee, giving false evidence, or prevaricating or misbehaving in giving evidence may give rise to a charge of contempt of the assembly, whether the witness has been sworn in or not.

Just to reiterate: A witness may object to a question asked by an individual committee member. However, if the committee agrees that the question be put to the witness, he or she is obliged to reply, even if the information is self-incriminatory, is subject to solicitor-client or another privilege, or on other grounds that might justify a refusal to respond in a court of law.

I once again welcome the panel and now open it up for a 10-minute introduction.

Mr. Gordon Campbell: Let me start by introducing myself. My name is Gordon Campbell. I chaired the commission. I am joined by Mike Horgan, a former Deputy Minister of Finance in the federal government, and Al Rosen, who has been recognized for his forensic accounting. They may say a few words in introduction.

We prepared this report and submitted it to the government on August 31, 2018, as we were requested to. Our effort in the report was to help establish a budgetary baseline for the new government so it could set its future plans. We interviewed a number of senior officials. We interviewed the Auditor General. We reviewed the issues that were at hand, and we prepared the report in what we hope was a relatively straightforward and communicative manner. Our whole key was to try to establish a sense of public transparency with regard to what's taking place with the public books, as we perceive that to be taking place. We believe that's the goal of the public accounts of Ontario. We believe it's a complementary goal of the Auditor General in Ontario.

We went through this with a series of meetings and analyses. We had a small and I think excellent staff that was provided by the Ministry of Finance, the Treasury Board—a legal division, internal audit, to help us in gathering together the information that they felt was required—and came forward with a report with a number of recommendations. They're all included in the executive summary. I wasn't going to read the executive summary, because you'll have the report, I'm sure, and will have had a chance to read it. This is your chance to ask us questions with regard to that.

There were a number of issues that came up that are highlighted in the report. One of the key ones, I think, in terms of the lack of clarity about what was taking place, is the fact that there are a number of different accounting standards that can be in place for different entities and different parts of government, different parts of our economy. Mr. Rosen was particularly concerned about that as we moved through the initiative, and I thought, maybe to start, I'd give Al a chance to outline some of those concerns that he's had.

Dr. Al Rosen: Thank you. The feedback after the report came out sent home a message to me that we needed to better explain that there are four or five different methods of accounting that were incorporated into the public accounts and the audit thereof. The reason for this is—you can't measure in yards and in kilometres and so on, because these are fundamentally different. You have the public sector, which is largely from the old Canadian GAAP, which was historic cost-based, and there are exceptions for fair values and so forth. The next one is IFRS, which is international financial reporting standards, which is totally different from the old Canadian GAAP and from the PSAS in the sense that—to give an example, in the old Canadian accounting, up until 2010-11, you had to recognize revenue after you had a transaction, so there would be a contract and some basis for saying, "Okay, these are the numbers. Those you can use. If you can collect the cash, you can record revenue," that type of transaction.

Unlike what has unfortunately spread across Canada, saying that IFRS is a continuation of that, is pretty much the exact opposite in the sense that management—what they can do is make their estimate. It doesn't have to be a transaction. They can make their estimate and it can be recorded as a profit even though you don't get the cash for several months or years.

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We're seeing this now with the marijuana industry, where you have these vast profits and so on, and they're audited. And therefore there's a question that I keep getting from people, which is, "Well, what are you talking about? What are you quarrelling with?" The point is, you can't just add these, because they're totally different systems, and if you add on top of that rate-regulated accounting or US GAAP accounting, you've got another problem.

The public accounts really need a serious revision in their standards that are used. This is the document. I'm just holding up what is called the CPA Canada Public Sector Accounting Handbook, where, in it, there are contradictions and so on. We had to contend with that type of situation while we were going through this particular exercise. So it's not a minor issue, and we'll see it come back later with respect to, were there in fact excesses over the last three years of pension assets over pension liabilities?

This is such a wide valuation problem. It has caused all sorts of problems in Canada, and because I have a forensic accounting background and have testified on this many times, it's kind of personally irritating to me that we have not done a better job in this respect.

Mr. Gordon Campbell: Mr. Chair, unless you have additional things for me to cover at the start, there are about 14 recommendations that we've laid out in this report. They're all included in the executive summary. The report covers off the rationale behind those recommendations as you go through it, and we'd be very happy to answer questions now, if that meets with your agenda.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you very much, Mr. Campbell. Now what we'll do is we will turn it over to the government for 20 minutes of questioning. We will start with Ms. Martin.

Mrs. Robin Martin: Thank you for your introduction and for your report, which I do think is fairly clear. We have the executive summary, as you pointed out, of your findings. Did any of them in particular surprise you after your review?

Mr. Gordon Campbell: Did they surprise me? I guess there were a number of things that surprised me. I think that you have to have a clear set of priorities when you're a government so that when you put your budget forward, you're able to meet that. It felt to me like there had been significantly shifting goalposts with regard to that.

Initially we were going to see a balanced budget, or it was reported that there was going to be a balanced budget. Clearly, 2018-19 was not a balanced budget. I think there was a sense from the people we interviewed that, really, that went by the way, and so it got more and more difficult

to balance the budget as you went forward because there didn't seem to be very much discipline with regard to that.

Again, to stand back for me just to talk personally and not about the commission, I think one of our goals in government is let people know what's taking place. You shouldn't have to require a PhD in economics to figure out what's taking place with your tax dollars as you go ahead. There were a lot of things that took place that seemed to me to be not directed towards either the initial goal that the government had set nor informing taxpayers about what had taken place. That surprised me, and what we've tried to do is highlight that one of the primary objectives that we've set out that we think is a good idea to set out as a government is the idea of fiscal transparency.

I was also surprised, again personally, that the so-called recovery plan even got the name "recovery plan," because it was arithmetic. It wasn't anything else, in my mind. I think that it's a much bigger challenge than that as you go forward, and that in terms of the—I think it's the fiscal accountability act where you're required to provide for a recovery plan over the long term. I think that's a much more comprehensive, thoughtful—for want of a better term, it's a quadratic kind of problem; it's not an arithmetic problem. Otherwise you don't really have a recovery plan, I don't think.

That would have been my biggest surprise, but I'll let my colleagues comment.

Mrs. Robin Martin: Any other comments on any surprises in the findings from the other members?

Dr. Al Rosen: It was a huge surprise to me that what I would regard as pretty basic accounting that's been around for years was not followed, and if I took a critical analysis of other issues, you could have had a much higher deficit in the prior three years. So I had to decide as far as the panel, like, was my lower estimate within my colleagues' here? It came there, but if I had written the report alone, I would have had a much higher number, especially with respect to the pension issues, the sale of Ontario Hydro shares and similar-type items, because I did not expect to find the sort of picking and choosing of different accounting principles from these four or five different systems. I thought it would have been cleaner than that.

I had been involved in the 1980s and 1990s with three of the Auditors General of Canada for a long time, and I would have thought that the changes would have been picked up in that period of time. Some were, and there are some good changes, but there are some that have to be cleaned up.

Mrs. Robin Martin: So you're suggesting that you personally would have found a higher deficit number than you all agreed to in the final report?

Dr. Al Rosen: Personally, yes. I'm not speaking for—

Mrs. Robin Martin: Based on those principles.

Dr. Al Rosen: It's just that you have to decide if your range was within what was going to be in the report. At the lower end I can see that, but I can also come up with others that I think should take place by revising this type of document over the next several years.

Mrs. Robin Martin: Right. So you would consider the estimate of the deficit actually conservative, in your opinion?

Dr. Al Rosen: Is "conservative" a good word?

Mr. Gordon Campbell: It depends what side of the committee you're on.

Laughter.

Ms. Catherine Fife: You looked over here when you said that.

Mrs. Robin Martin: I mean a conservative estimate.

Dr. Al Rosen: It's a lower number than I think was merited.

Mrs. Robin Martin: Right. I meant it in that sense. Okay.

Mr. Horgan, did you have anything to add on that point about what findings surprised you?

Mr. Michael Horgan: It all surprised me, in a way. I went into this knowing just by reading the newspapers that there was a disagreement between the Auditor General and the government on a couple of accounting issues, but I didn't know those issues in detail. I found it, as a concerned Ontario citizen, pretty eye-opening in terms of the actual state of the fiscal situation in Ontario—and going through the accounting issues, plus some of the expenditure and revenue things, I found all in all it was a surprise to me, I guess, in terms of what the bottom line is.

Al and I can disagree about whether the deficit is actually bigger or this is more or less correct, but it suggests to me as a former finance official for the government of Canada that Ontario does have a fiscal problem.

Mrs. Robin Martin: Okay, and is there anything in particular that concerned you the most about these findings? This is a different sort of direction on the same question. You mentioned transparency, Mr. Campbell. Is that the issue that was the number one concern for you?

Mr. Gordon Campbell: That's my number one concern, because you get to make the choices you make in government, and the key is that the public gets to make their choice of whether they want you to stay government or not after you've made those choices, right? I have to be careful with this, but Ontario should have the best financial fiscal situation in Canada; it doesn't.

The challenge for Ontario is that I think the rest of the country, although they may not tell you this, needs Ontario to do well financially. They need you to have a strong fiscal platform as you move ahead, and in some cases I believe they need Ontario to set an example. The example was not a good one, and when you have your debt-to-GDP growing at the rate that it's growing at a time when the economy's doing relatively well, I don't think you're managing the resources for today very well, and you're not managing the resources for tomorrow at all. I think we have a responsibility in government to do both.

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Mrs. Robin Martin: Anything anyone else wants to add to that?

Mr. Michael Horgan: I guess the only thing is that if we look at the last two recessions in Canada, with each of those recessions the net debt-to-GDP ratio for Ontario has

gone up by about 10 percentage points, and it doesn't come down. In Ontario, we've now had a long period of economic growth, but the net debt-to-GDP ratio has kind of stabilized. In our report, we say it's now over, kind of, 40% of GDP.

There is going to be another recession coming. We don't know when. We can't predict when, but one of the problems I think is that Ontario is actually not well positioned for the next time around. That's not only true of Ontario; I think it's a general statement, perhaps, about Canada. But this is the one thing that concerns me the most about the current situation.

Mrs. Robin Martin: I noticed on the transparency point, on page 9 of your report, that you talk about the question being "not whether a particular accounting treatment can be justified," in government accounts, "but whether it helps the public to fully understand the financial position of the province." I wonder if you could just elaborate as to why that is so important.

Mr. Gordon Campbell: Do you want to speak to that first?

Dr. Al Rosen: No.

Mr. Gordon Campbell: I think that the key point about transparency is that the government of Ontario is backing up a lot of the hydro plan that was put in place, which is a direct commitment of Ontario.

There's an old joke: You ask a lawyer what you should do. He says, "Well, you could do this or that." You ask a doctor what you should do. He says, "You have to do this." You ask an accountant what you should do and he says, "Well, what do you want me to do?"

That's a problem, because I do think that the fundamental trust that the public believes is that governments have a responsibility to show them what their obligations are, both in the short term and in the long term. You can do all sorts of things to hide what it really is, and it's totally legal; it's all above that kind of standard. But it doesn't really open up so the public can understand what their obligations will be in the future. I think that's a critical component of what you have to try to accomplish.

As we say, transparency, for us, at least in this commission, was paramount. The question is, are you being as transparent as you can? Are people understanding what their short-term and their long-term obligations are that the government has taken on? And what condition does that leave the government in to deal with the unknowns that they're going to have to deal with?

Every government has to deal with a series of unknowns, as Mr. Horgan just mentioned. We don't know when the next recession will be, but I don't know anyone who doesn't think there won't be a next recession some time. You're less prepared for that now than you were in 2008. One of the things I think you have to get prepared for is the unknown.

Mrs. Robin Martin: On the very first page of your report, you talk about the public's right to understand the financial obligations of taxpayers and residents. That's related to this whole idea of transparency, I guess. It's something that if people don't understand or if they don't

know exactly what to expect going forward, or what choices, maybe, the government is making—is that what you're getting at?

Mr. Gordon Campbell: Yes. That's what I think we all were getting at.

That goes to the point that Al is making with regard to if there are three or four accounting systems you're using, are you comparing apples and apples? Are you comparing fresh apples with frozen apples, or apples and oranges and grapefruit? What is it we're actually doing? The cleaner we can become in terms of our definitions and how we're going to measure those things, the better off the public is.

Dr. Al Rosen: The example with that, of course, is in Canada now, where we have this system called international financial reporting standards, which is a management choice. It scares me to death. We've written extensively about this and most have no idea how risky and loaded in one direction it is.

To make it worse, we have the Supreme Court of Canada—I shouldn't say this, but it's necessary. They don't understand it, and this is obvious from the wording in their major decisions. So you have virtually nobody around giving leadership. Ontario could give that leadership through its type of reporting, but for some reason it chose to do what we're seeing in the public company accounts and the stock exchanges, which is absolutely, in my opinion, misleading accounting. We are going to have a collapse with the marijuana and other companies and there's no sense pretending otherwise.

Mrs. Robin Martin: Mr. Rosen has used the word "misleading." I think, Mr. Campbell, you used the word "hide." What happens when the public's right to understand these financial records is not respected?

Dr. Al Rosen: They end up investing in terrible corporations, which is what we're seeing now, and they misunderstand. Like, when you go through this document, you have trouble deciding whether the net debt calculation is more important than the surplus deficit, whereas the media keeps on talking about the surplus deficit. But we saw—

Mrs. Robin Martin: And in the public sector?

Dr. Al Rosen: Pardon me? Sorry. We saw that, unfortunately, ill-treated in the last several years.

Mrs. Robin Martin: Yes.

Mr. Gordon Campbell: We were very clear that we were talking about the public sector here, though, not the private sector. Part of what the—at least, I think what happens is people have a different view of what's actually taking place. Eventually you run into a wall.

Mrs. Robin Martin: Right.

Mr. Gordon Campbell: It's not a matter of, you can't make those choices. It's that when you make the choices, make sure everyone is clear on what the choice was. If you want to have accountability in government, you have to be clear and responsible for the decisions you make and put them in front of the public so they can see them, and say, "I made this decision. I think it's the right decision." Right? I think we see the impacts of that here.

I should say that the senior staff and the Auditor General's staff etc. were excellent with us. They just told us that this is what was out there that we had to look at, and they tried to provide us with the information we needed. But the reason I think the Auditor General had some resonance was because she was trying to say, "No, this doesn't reflect what your real circumstances are." I think we have to do that.

The reason we have the Auditor General is so she can be a check on government: Is it a reflection of those true circumstances? Then the public, the people who are paying the bills, can hold the people who are creating the bills to account for creating them.

Mrs. Robin Martin: Right. I take it from what you just said that you don't think that the former Liberal government under Premier Wynne respected the public's right to understand the financial records of the province?

Mr. Gordon Campbell: I think they didn't understand how important that was to the public.

Mrs. Robin Martin: And they weren't fully transparent in the way that they presented—

Mr. Gordon Campbell: It was not transparent. When you need a PhD, a legal degree and a few other things to know what's going on, that's not transparent. That would not be my definition of transparent.

Mrs. Robin Martin: Right, and there's a consequence to that for the public trying to understand where they're at in the province, right?

Mr. Gordon Campbell: Correct.

Mrs. Robin Martin: All right. Another number that—I guess, the big number that jumps out in the report is the \$15 billion. Can you explain why this hidden deficit was not reflected in the Liberal budget?

Mr. Gordon Campbell: I think I can. The Auditor General's recommendations would have reflected a significantly higher—I'm just trying to find the table.

If you take into consideration how the Auditor General would have recommended that we dealt with, for example, hydro, that was one set. If you take into consideration how the Auditor General would have recommended we dealt with the joint pension funds, that was another addition.

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We looked at the revised revenue forecast, and to be fair to the previous government, we looked at that in August of 2018 with the revised information that had come forward. The revised information that came forward suggested that economic growth was slowing and wasn't at the same rate that it was. Some of the savings that had been projected for the previous government—we removed that because there were no savings to be recognized there, in terms of what this current government was. The reserve was significantly lower than the reserve had been previously. Previous reserves had been about \$1 billion, and this one was \$700 million, I think. That added additionally to that amount.

So when you took all of those together, revenues were marginally up, expenses were up more than the revenues were up, and those other items came forward. That came

to \$15 billion as opposed to \$6.7 billion. That's on page 24 of the report.

Mrs. Robin Martin: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Just a minute and 30 seconds.

Mr. Michael Horgan: Can I—

Mrs. Robin Martin: Sure.

Mr. Michael Horgan: Actually, revenues were down—sorry to have to correct you. At the time that we did the report, the estimate was that relative to the budget estimate of revenues, revenues were actually going to be down by about \$1.5 billion for a variety of reasons.

Mr. Gordon Campbell: That's right. I misread.

Mr. Michael Horgan: There were three big issues. Two of them were the big accounting issues between the government and the Auditor General. Then, we had the luxury, a number of months after the budget, of having the revised revenue and expenditure estimates, the most current estimates available from the Ministry of Finance and the Treasury Board Secretariat. All of those combined led to an increase of the deficit from \$6 billion-odd to \$15 billion. I guess the other thing was that in the budget, the government had a target of about \$1.5 billion for program expenditure savings. But by the time that we were looking at it, nothing had been done on that, so we just reversed and took that number out. I think it was actually \$1.4 billion?

Mr. Gordon Campbell: \$1.4 billion.

Mr. Michael Horgan: Yes. So given the fact that we're well into the fiscal year and nothing had been done, we said, "Well, look, it's not realistic to include these things in the actual status quo estimate." That's not to say that the current government may do something to reduce expenditures in this fiscal year. I don't know. We're not privy to your deliberations on that. But that was an additional factor in terms of the numbers.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. Now we'll just turn it over for 20 minutes of questioning to Ms. Shaw.

Ms. Sandy Shaw: Thank you for being here today. I read your report thoroughly—lots of highlights. I agree that we definitely have a fiscal problem in Ontario and that this has raised a lot of questions for us.

I just want to go back, if that's okay, to the mandate, to about how this got started. I just wanted to make sure that in your opinion, the scope of the mandate didn't prevent you from doing any of the work that you might have wanted to do. Was there anything left out in this that you would have liked to have seen in there to allow you to dig a little deeper?

Mr. Gordon Campbell: Not for me, personally, no. I think that the mandate was clear from our perspective and the government was clear that it was ours: "Tell us where we stood in 2017-18, tell us where you think we stand in 2018-19 and create a baseline for us," as we mentioned. That actually restricted us, so we didn't deal with a lot of the issues that Al was talking about, because at least in our mindset, that wasn't necessarily part of the mandate. It's part of what you have to think about as you go forward,

but it wasn't necessarily part of the mandate. We were unfettered in our opportunities to go ahead and discover what we had to discover between the middle of July and the end of August.

Ms. Sandy Shaw: Okay. Thank you. I'm just curious, did you get an opportunity to meet with the Premier or any of his staff in your work?

Mr. Gordon Campbell: No. Did we meet with any of his staff? I don't believe so, no.

Dr. Al Rosen: Which staff?

Mr. Gordon Campbell: The Premier's staff—I'm assuming you mean his political staff.

Ms. Sandy Shaw: Yes.

Mr. Gordon Campbell: No, I don't believe so. No, I don't recall it if we did.

Mr. Michael Horgan: We met with the cabinet secretary, but not with the political staff in the Premier's office.

Ms. Sandy Shaw: So, again, re-emphasizing that we on this side, our caucus, see that this is important work and we want to ask these questions, but as you've said, we want to see that this isn't just a rearguard action, and that we are moving forward to inform future fiscal planning for the province. That's where we're coming from, so that you know that.

But it seems to me there's a bit of an elephant in the room that I'm hoping that we could clear up as we go forward with this committee. There's a lot of discussion in the media about what the intention of this committee would be and what some of the outcomes of this committee would be. As I said before, we take this work very seriously and we want to make sure that what comes out of this is useful and productive.

So bear with me, I just want to clarify: I think, Mr. Rosen, you said that some of the feedback that you received after the report, you thought, needed to be better explained. I would just suggest some of the feedback that we heard in the media and even particularly from our Premier, who was quoted as saying some pretty high-handed things about the results of this report—this will lead to a question, so if you would indulge me, I'm just going to read his statement or his comments that he made. This is from the Premier. He said:

“If you tried to play these dirty accounting tricks in a business, if you tried to pull that kind of cover-up in the private sector, the [Ontario Securities Commission] would come calling, the police would come calling. The only reason this is not fraud is that the Liberals got to set their own accounting rules.”

The second thing that was pretty inflammatory and that we've had to address as members of the committee is a statement where the Premier said, “A lot of the Liberals got rich, really ... rich, under Kathleen Wynne and off the backs of the taxpayers.”

That led to a lot of questions in the media and from our caucus that there was something beyond just how you described it: a misleading accounting practice. So I'm asking you directly, in your work, in the scope of your work and under the mandate, did you find anything that

you would consider beyond just misleading accounting practices, as you've described?

Maybe, Mr. Rosen, particularly for you: Was there anything that you would consider, if this had been, as was suggested, in the private sector—that would be considered fraud? I'm also impressed by the fact that you're a certified fraud examiner. You don't run across those every day. So I'm asking, in your expert opinion, beyond what we are saying are misleading accounting practices—which we agree with—was there anything that you uncovered that would be beyond that, that would be malfeasance or actionable in any way?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Ms. Shaw. Just to be clear, we're not going to be imputing motive through the line of questioning. I want to just caution you on that.

Ms. Sandy Shaw: I'm just reading Mr. Ford's statements in the media and on Twitter.

Dr. Al Rosen: Excuse me, you used the word “fraud.” The intention has to be there in court to go along with that. If you're challenging me to find fraud in the Ontario government, I'm assured I can find it, with my experience. But in terms of what time—

Laughter.

Ms. Sandy Shaw: Could you repeat that for me? They were laughing, and I couldn't hear.

Dr. Al Rosen: I just wasn't too sure whether you were—

Mr. Gordon Campbell: It's okay. I'm sitting beside him, and I didn't hear him either.

Ms. Sandy Shaw: Okay, thank you.

Mr. John Vanthof: I heard it.

Ms. Sandy Shaw: Could I just be clear? I didn't say “fraud;” I'm just reading from direct statements from the Premier.

Dr. Al Rosen: Well, the Premier's comment about the Ontario Securities Commission and police makes me cringe, because most of the time they are understaffed and so on and don't follow up on these types of things. But otherwise, aside from some of the language, the general thrust is that there were things that were happening—

Interruption.

Dr. Al Rosen: Is that a vote? Do you have to go?

Ms. Sandy Shaw: Yes.

The Chair (Mr. Prabmeet Singh Sarkaria): We can recess in about five minutes. It's a 10-minute bell, so we'll just go for five more minutes and then we'll recess.

Dr. Al Rosen: So just ignore it?

The Chair (Mr. Prabmeet Singh Sarkaria): For five minutes, if that's okay.

Mr. Gordon Campbell: Depends how long your answer is.

Ms. Sandy Shaw: Exactly. My blood pressure is going—

Dr. Al Rosen: You know we had a time limit, so we had to be selective on where we went, so I can't give you some overall blessing that there is nothing that's wrong.

Ms. Sandy Shaw: Okay.

Dr. Al Rosen: All we have to do is look at something like the sale of Hydro One, which occurred over three

years. Where did the gain—the difference between what was on the books and what the securities were sold for—where did that go? It went in to reduce the deficit.

Now, that type of thing, you could try to get away with in the private sector and the Toronto Stock Exchange and so on, and sometimes you do. But it is clearly a violation of the listed company accounting principles. So we're back to a situation: Which set of criteria do you want me to use in answering your question? I don't know whether—did I confuse you more?

Ms. Sandy Shaw: No, you didn't. What I'm trying to establish is that we can put that aside, move forward and look at the other recommendations so that we don't have to be asking questions or wondering whether or not, in your investigation or in the scope of your review or your mandate, there was anything in there that would require further investigation from other authorities, from the police. Because it has been a distraction, some of that language, from what could be the good work of this committee.

Mr. Gordon Campbell: There was nothing—

Ms. Sandy Shaw: You've got your mike on.

Mr. Gordon Campbell: There was nothing beyond what we said.

Ms. Sandy Shaw: Okay, thank you for that, because I just thought once we've established that, we can put that behind us and move forward with some more of the fundamental questions.

How are we doing for time? I have bell anxiety when it's ringing.

The Chair (Mr. Prabmeet Singh Sarkaria): Do you want to just recess?

Ms. Sandy Shaw: Why don't we adjourn with that question?

The Chair (Mr. Prabmeet Singh Sarkaria): Sure. That's what we'll do, then. We'll just recess. We've only two minutes. We'll return as soon as possible right after the bell. The committee is now adjourned.

Ms. Sandy Shaw: Recessed.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, recessed. Recessed. My apologies. The committee is recessed.

The committee recessed from 1342 to 1359.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee is now back in session.

We'll turn it back over to Ms. Shaw: just under 12 minutes left for questioning.

Ms. Sandy Shaw: Thank you, Mr. Chair. I have a few questions I've been warned might be boring, but I'm going to ask them anyway, if that's okay. It's around some of the assumptions in the report.

I have a question that really, in some ways, is just for my own edification. That is, when I look on pages 4 and 5 of your report and it shows both the Ontario deficit and surplus over the last, it looks like, almost 30 years, there have not been a lot of times when we've been in surplus or had a balanced budget. Then I look also at the Ontario debt-to-GDP—again the trend line, as you've described, is going up.

You've got a lot of comments about the state of the economy and so forth and how debt and deficit is a reflection of that. My question is whether or not this is a structural deficit that we're looking at in the past or whether if this is cyclical—and if you could explain the difference to me and why that would make a difference in our situation, currently, in Ontario.

Mr. Gordon Campbell: Go ahead, Mike.

Mr. Michael Horgan: Okay.

It's structural, not cyclical. You can see, by the increase in the net-debt-to-GDP ratio, that each time there has been a recession, it has gone up by about 10 percentage points. If we had a cyclical deficit, then after X number of years of growth since the recession in 2008-09, we would have expected the deficit to go down, but it has gone up. So I think that, basically, says that there's a structural deficit issue in Ontario.

Ms. Sandy Shaw: I guess my question is, and your report implies this: There's not a lot of fiscal room to manoeuvre for the government when this is the case. Would you agree with that?

Mr. Michael Horgan: It's up to a government to decide how to address its structural deficit problem. There are a number of ways. In our report, we don't suggest ways of dealing with that problem. You can cut expenditures, you can try to find efficiencies in your delivery of services or you can increase your revenues. But those are the only three things you can do to get your deficit situation under control. We make no recommendations in our report about that. I think that's up to the government and the Legislature of Ontario to decide how it wants to deal with the problem. All we're pointing out is that there is a fiscal problem.

A couple of the things that we suggest are that the government should, after some discussion, set an appropriate net-debt-to-GDP ratio and try to move over time—it's not going to happen overnight—to that targeted level of net-debt-to-GDP.

The other thing that we're suggesting, as well, is that Ontario used to have a AAA credit rating. Why does it not have a AAA credit rating now? It should actually try to achieve that credit rating.

The deficit didn't grow overnight, so getting this situation under control isn't going to happen overnight either. But we think that it would make sense for the government and the Ontario Legislature to take action to get the deficit situation under control.

Ms. Sandy Shaw: Thank you. Can I just—

Dr. Al Rosen: Sorry. You have to tie the interest rate that has to be paid on the debt into this—the mess we got into 25 or so years ago, where a big chunk of the available money went to pay bond interest.

Ms. Sandy Shaw: Thank you for that, because that leads me to ask some questions just so that I can have some further understanding about some of the assumptions that you've made in your projected revenue, and the revenue and the expenditures for the province. Specifically, I'm going to ask about GDP growth.

You were saying that we've come through a long period of what we would consider decent growth. All the

forecasters, including our own independent legislative officer, are saying that that's growing. Central 1 Credit Union said that they're predicting the GDP growth to be 1.9%, I think, and going down. You said, "We don't know when a recession is coming, but it's coming." It's like Game of Thrones, where they say, "Winter is coming."

Can you just talk a little bit about how the GDP—and the expected growth that you have in your assumptions—at the time, and has it changed in just the last few months since you have released this? The predictions are getting more and more gloomy.

Mr. Michael Horgan: The GDP growth forecast really came from the Ministry of Finance. It wasn't the three of us. It's the same people who did the forecast for the budget. They revised their numbers, and those are the numbers that we used for the GDP growth forecast. Actually, they saw GDP growth, at the time we delivered our report, to be lower than they had predicted at the time of the budget. So that amounts to about \$400 million, I think, in terms of the change in revenue. The growth forecast that we had in our report was probably closer, then, to what the Financial Accountability Officer had said at the time of the budget.

Ms. Sandy Shaw: A couple of other assumptions—I just wanted a little bit of detail on that, if that's okay with you. One of them that's interesting to me is, you've accounted for the impact of the recent increase in the minimum wage and you've allocated an amount to that. I'm just curious what your evidence for that was.

Mr. Gordon Campbell: Again, we took that from the government ministry. We had some discussion about minimum wage—would it have a positive or negative impact. We took their recommendations.

Ms. Sandy Shaw: Did they show you any evidence for this?

Mr. Gordon Campbell: I think there was a report that was available to our staff. They didn't tell me specifically; no.

Ms. Sandy Shaw: I have another question. This could show my lack of understanding, and I'm happy to be schooled; I don't mind that at all. It shows here that you make downward adjustments based on US tax changes—which, now, we've seen—and a slowing housing market. That makes sense. However, when you read the growth forecast, you base these revisions on factors like the housing market and US tax changes. So it seems to me that this is double counting. Again, you can tell me how that works, but it seems to me you're double counting this on both the revenue and the expense side.

Mr. Michael Horgan: No, I don't think so. Because of the US tax reform, Canadians—corporations and personal income taxes—would try to shift their income to an earlier period. Therefore, for the current year, their taxes would have been shifted back in time, and so that has an impact on the actual current year tax revenues. That was what the department of finance's estimate of the impact was, of US tax reform for this fiscal year.

Dr. Al Rosen: Businesses can move across the border.

Ms. Sandy Shaw: Sure. Free will.

Mr. Michael Horgan: The housing market impact is just—the housing market, relative to the time that they were projecting at the budget, was weaker. Therefore, the land transfer tax projections are lower.

The Chair (Mr. Prabmeet Singh Sarkaria): Just under a minute and 30 seconds.

Ms. Sandy Shaw: You talked about wanting to reduce the debt and reducing the net debt-to-GDP. Are we in a period of growth? It doesn't seem like we are. It seems like we're coming to the tail end of a period of growth. I would just ask what the wisdom, some of the recommendations would be in what we might call an austerity budget, with some of the measures in what is maybe a precursor to a recession? We saw that even the federal government, in 1928, 1929—even the fiscal conservatives, when they realized that this, in fact, was a recession, that it wasn't a period of growth, they introduced one of the largest deficits in modern Canadian history, if I'm not mistaken.

How do we know? I know it's an art, not a science, but what would be the wisdom of making some fiscal decisions when we have what seems to be a quickly shifting economic landscape?

Mr. Gordon Campbell: It's exactly why you need to have a larger reserve, as we've recommended. It's because we don't know what's going to happen and when it's going to happen. We don't have all the control over everything.

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But there are things that you have control over, and those things you had better start controlling or you're going to have even greater impacts in terms of the negative and the downsides. If you've pushed out all your room to support that downside situation, and you haven't planned for it, you're going to have a lot more difficulty than if you do.

I think, as you pointed out earlier, the standard response is, "Let's have more deficit." I have never found a good time to manage your accounts.

Ms. Sandy Shaw: But is it possible to overcorrect—

The Chair (Mr. Prabmeet Singh Sarkaria): I'm sorry, Ms. Shaw, we're over time for the questions, so I'm going to have to turn it over to the government side for the next 20 minutes and Mr. Romano. Thank you very much.

Mr. Ross Romano: Thank you again for being here today. I have a few questions. Let's start off—you talked about the true state of the deficit. Can you again explain to us how the true deficit was not actually shown on the Wynne Liberal government's books?

Dr. Al Rosen: What do you mean by "true"?

Mr. Ross Romano: Well, from what I've heard you testify to today—and, really, throughout the course of the week—we know there was some dispute with respect to how the accounting was done to achieve the desired result. Can you perhaps explain how, specifically, maybe as quickly as we can—

Dr. Al Rosen: Okay. An easy example to me is the Hydro One sales. It was sold in three different years. On that basis—just an analogy, so to speak—if you have assets in your corporation that you need to manufacture a product to sell, and you somehow decide to sell those

assets and you decide that that's part of your regular business operations, and you use it to reduce the deficit, that's not cricket in my opinion and in the opinion of the standards in multiple ways across the world.

Mr. Ross Romano: Okay, if I can just—

Dr. Al Rosen: Otherwise, you could then sell the liquor board and you could sell the lottery corporation and so on, which means you don't get that revenue into the future.

Mr. Ross Romano: You made the comment—just to make sure everybody is clear—you said, “That wasn't cricket, in my view.” Can you just explain what you mean when you say, “that's not cricket”?

Dr. Al Rosen: What it means is, you should be—I can dig it out of here for you at the next break. It says from a cash point of view, these are reductions of your investments. If we back up—sorry, I was a professor for a long time. You have operations—which means your sales and things like that—you have financing and you have investments. Those are your three. Which category does a transaction fit into?

Operations—if we take some of the airlines that went bankrupt: They couldn't make money on their operations selling tickets and paying the fuel and so on. So what did Canadian Pacific Airlines do years ago? They said, “We're going to try to find people who are willing to buy our debt”—and you will find them at a high enough interest rate—and also on the investments, we're going to sell our planes.” If you sell your planes, you don't have any more customers. This is a quick ticket to bankruptcy. It just doesn't make sense to do those types of things; therefore, that's why it's not cricket.

When you ask about the deficit, the deficit should be made up of stuff that is part of your regular operations: your taxation and paying for hospital and education services and so on.

Mr. Ross Romano: So—

Mr. Michael Horgan: Can I?

Mr. Ross Romano: Sorry, go ahead, Mr. Horgan.

Mr. Michael Horgan: Al is making an interesting point, but that is not the area that the Auditor General disagreed with the government on. I think Al's point is a good one. It's certainly true that when governments sell assets, they should be pretty clear that the deficit reduction associated with those assets is a one-off event and not necessarily a demonstration of what the underlying deficit is over time. But those were not the accounting that the Auditor General had a disagreement with the government on.

What we did as a committee is, we looked at those two accounting issues where the Auditor General disagreed with the government, and that's where, in terms of our report, on the pension side it was \$2.7 billion and on the fair hydro thing it was \$2.4 billion. Those were the areas of dispute between the Auditor General of Ontario and the previous Liberal government and those are the two areas that we came down with an opinion and recommendation on in our report.

Dr. Al Rosen: But that's a matter of interpretation of the mandate. You interpreted it your way; I interpreted it a different way.

Mr. Ross Romano: All right. In your opinions, how does an interest rate-tightening cycle impact our capacity to address the fiscal irresponsibility that you've outlined?

Mr. Gordon Campbell: It's going to create additional costs for you. It's going to create an additional deficit for you, in the short term for sure, if you don't get the costs under control.

Mr. Ross Romano: Right.

Mr. Gordon Campbell: And what I think too often people forget is interest rate is one of the first things you've got to pay out the door; right? So it shrinks your opportunities to do the things that you might want to do. I haven't heard anyone say, “I can't wait to spend more interest rate.”

Mr. Ross Romano: Right.

Mr. Gordon Campbell: So the level of service you can provide in other areas is shrunk by that. The potential for additional borrowing is shrunk eventually by that. I don't think it will be for Ontario for a bit, but your costs can go up significantly just in terms of what's happening with interest rates globally and then they can go up again because of what's happening in terms of your fiscal plan, and if your fiscal plan says one thing and you deliver another, your interest rates will go up again.

You have to establish where you're going. One of the recommendations we've made is, set some goals for yourselves and then set a plan to do that and then meet your plan, and that starts to create credibility in terms of the overall financial and fiscal plan for Ontario.

Mr. Ross Romano: Earlier on, Dr. Rosen, you mentioned—and we've heard this time and time again. This is very confusing stuff. It's complex; it's not easy to follow unless you're an accountant and even then, I think sometimes it's difficult to follow.

Interjection.

Mr. Gordon Campbell: More differences of opinion, that's correct.

Mr. Ross Romano: Yes, perfect.

I'm going to try to break this down and ensure that I have it understood. I did this once before with our Auditor General and I want to make sure that I'm on the right page here.

In essence, when we want to balance a budget, we look at a balance sheet. You want to make sure that your assets and your liabilities all equal out to zero. Fair? That's our goal—

Dr. Al Rosen: In government? You mean from year to year?

Mr. Ross Romano: Just generally speaking, look at a balance sheet. You've got—

Dr. Al Rosen: Okay. I don't like it, but I'll accept it for your question.

Mr. Ross Romano: Okay. Thank you.

When we're looking at the way the accounting was done, this rate-regulated accounting and all this stuff that was referred to as an accounting dispute by the previous government with the Auditor General, is it fair to say that

items that ought to have been recorded as liabilities, negatives, were added in on the plus column, being the asset column, to try to artificially change the nature of the true state of the financial affairs? Would that be an accurate way to characterize this?

Dr. Al Rosen: I'm trying to think of what example you're talking about. The IESO situation?

Mr. Ross Romano: Specifically, yes. The rate-regulated aspect of accounting, as well as the pension assets, if I may say that as well. But you're the expert, not me.

Mr. Gordon Campbell: They're different, though.

Dr. Al Rosen: Yes, they're different.

Mr. Ross Romano: Okay.

Mr. Gordon Campbell: The issue with regard to the pensions was that the government of Ontario was trying to take 100% of what they thought of as the value, but they were a joint pension fund. To put it in simple layman's—even I can understand—terms, your Auditor General said, "If you can get agreement from your joint funder, fine," and the government didn't want to get agreement from the joint funder. They just wanted to take 100%, so she said no—

Mr. Ross Romano: So they took 100% of that asset—

Mr. Gordon Campbell: The 100% that was due to them. She said, "No, that doesn't work."

Mr. Ross Romano: Right, unless you had their consent, but they wouldn't even ask for it.

Mr. Gordon Campbell: Yes, in writing, a real, legitimate thing.

Mr. Ross Romano: So that option was laid out—

Mr. Gordon Campbell: There's a resolution to that problem; right?

Mr. Ross Romano: Right.

Mr. Gordon Campbell: But it wasn't found.

Mr. Ross Romano: Right.

Mr. Gordon Campbell: So that comes out at an additional \$2.7 billion.

Mr. Ross Romano: So let's just confirm that. I just want to make sure I have that clear. The Auditor General specifically said to the Wynne Liberal government, "You can take that 100% if you get it in writing from the pension people that it's okay," but they refused to even ask.

Mr. Gordon Campbell: I don't know if they refused to ask, but they didn't get it.

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Mr. Ross Romano: They did not get it, but they still recorded—

Mr. Gordon Campbell: They had another process they went through instead where they put together a committee that came forward and said, "You can do this." That's one of the arguments that we make. You can do it, probably, but the question is, does that tell people what you're really doing?

Mr. Ross Romano: Right. So they found they did not get the—

Mr. Gordon Campbell: The Auditor General felt it didn't, and we agreed with the Auditor General. They should resolve this. Again, to use the words that we used

in the—if you're an interested party and you're looking, you could say, "Well, they can certainly get something—probably not nothing and probably not 100%. So what is it they get?" Get it in writing and then you know what you've got—

Mr. Ross Romano: So the simple fact is, they did not receive the approval as it was asked for by the Auditor General, and they nonetheless recorded 100% of that asset on the balance sheets.

Mr. Gordon Campbell: That's what we understand; correct.

Mr. Ross Romano: Now let's talk about the Fair Hydro Plan and this rate-regulated accounting. Is it fair to say they put what should have been recorded as a liability into the asset column? Is that an oversimplification?

Dr. Al Rosen: Do you mean a liability, or increasing the deficit?

Mr. Ross Romano: The fact that it was not recorded as a liability, that it was recorded, in some respects, as an asset, in order to bring down the true state of the deficit.

Mr. Michael Horgan: I guess I would say the government had two objectives. One was to lower electricity prices, and one was to be in surplus. I think what they did was say, "Go find a way to accomplish those two goals." What happened was a very complicated, opaque scheme to say, "We're going to reduce electricity prices now, but in the future, ratepayers are going to pay increased prices, and they're going to pay for the cost of funding the lower electricity rates now," and they declared that to be an asset. They used that asset and then borrowed against that asset to fund the lower rates now.

The Auditor General said that's not acceptable under public sector accounting standards. We, as a commission, agreed with the Auditor General on that. That is not an acceptable approach.

Mr. Ross Romano: Okay, thank you.

Mr. Michael Horgan: The other thing is that if you look at it from a disinterested point of view—if I can be bold, you're all politicians. In the election campaign, everybody more or less ran on the idea of having lower electricity prices. The notion that it is going to be easy to raise electricity prices starting in 2021 or 2022, when all parties ran on a platform of lower electricity prices, just seems counterintuitive.

The other thing is, in order to be able to borrow against this asset, the lenders required a government of Ontario guarantee on that asset. They didn't believe this was a real asset, so they required the government of Ontario to guarantee the borrowing, and it took place at a higher rate than the Ontario government's normal borrowing rate. There was, in effect, a net cost to the taxpayer. The previous government would have said, "Well, it's the future ratepayer who would have paid that," but there is actually an interest rate differential between the government of Ontario's borrowing rate and the rate that these bonds were sold at.

Mr. Ross Romano: I just want to make sure we get sort of a summary, because we heard something very similar from the various bureaucrats who testified before this committee last Tuesday. In a nutshell, I think it's fair to characterize—and I heard your comments earlier—that

the whole idea of this global adjustment refinancing cut across both legal and accounting lines. Would you agree? A simple yes?

Dr. Al Rosen: It cut across credibility. Who's going to pay 10 years and 15 and 20 down the road? It failed face validity; that was where I stood. The rest of it—forget it.

Mr. Ross Romano: So not only did it cut across legal and accounting but credibility lines, so your answer would be yes, it cut across legal and accounting lines, I guess, then.

Dr. Al Rosen: Absolutely.

Mr. Ross Romano: As far as another point, then—I think, Mr. Horgan, to what you were just referring to—we were hearing from some of these bureaucrats that they were saying, “Listen. This GA refinancing probably won't even work, and even if it does, rates will escalate in the future.” I think that's to your point where there was a guarantee required because it wasn't believed that it would work and if it did, rates would start to escalate—energy rates, that is.

Mr. Gordon Campbell: And there's no guarantee that rates will go up in the future. There's even less guarantee that they're going to go up 9% per annum in the future.

Mr. Ross Romano: Fair. Okay.

That's what you're saying. You made the reference to “opaque.” That's in your report. On page 18, you refer to how the fair hydro scheme was “risky, complex and ultimately opaque.” Mr. Horgan, is that a fair assessment as to why you came to that conclusion that it was risky, complex and opaque?

Mr. Michael Horgan: Yes.

Mr. Ross Romano: Okay. I just want to ask a few questions following up from that. Again, simplicity—from my perspective, as a layperson—I remember hearing, I believe, the Auditor General reference that the accounting in the Fair Hydro Plan act was backwards. What I understood that to mean was, the goal at the start, as you already laid out, Mr. Horgan, was that we needed to reduce hydro rates but we needed to make sure that the deficit and the debt did not change. They knew that number at the bottom of the balance sheet. They needed to find a way to get there.

Essentially, is that a fair reference, that it was backwards accounting, because they started with the end result and then found a way to work toward that end result?

Dr. Al Rosen: Can I just read something to you?

Mr. Ross Romano: Yes, please.

Dr. Al Rosen: This is the Auditor General's report. Many people in Canada missed this. She, as Auditor General, has to sign that these financial statements are “free from material misstatement, whether due to fraud or error.” She has to sign that they're free from material misstatement. She has to sign that the overall presentation is in accordance with standards. There are a whole bunch of comments that she has to make before she gets into the detailed rules. So when you stand back and look at it and say, “You didn't pass basic auditing standards as required by the standards, and my signature has to be on it,” that kind of ends the story right there.

Mr. Ross Romano: Let me ask you this: We have heard, since the time that special report came out and leading up to it, the former Liberal government continuously refer to this as nothing but an accounting dispute. They kept on saying, “We have our accountants. The Auditor General is an accountant. It's an accounting dispute.” Would you agree that the term “accounting dispute” does not even remotely come close to characterizing what this really was?

Dr. Al Rosen: I certainly would. That's why I read you this in the other stuff.

Mr. Ross Romano: Exactly. Would you agree that the term “accounting dispute” was really nothing more than former government messaging?

Dr. Al Rosen: Former government—

Mr. Ross Romano: —messaging. Maybe, Mr. Campbell, you might be able to speak to that.

Mr. Gordon Campbell: I don't know what that is, even.

I think we have to be careful. Going back to one of the first things that Al said: There are different ways you can account for different things. The issue here is that it is not clear to the people of Ontario what has taken place. The accounting is there and the legal ins and outs are there. But the key thing, for me, was that the Auditor General was also there, and she said, “This is not a clear statement of what has taken place in Ontario.”

Really, they said that they were reducing the rates. In the short term, it looks like you're reducing the rates. They didn't say, “But in the long term, the rates are really going up.” They didn't say that it's up to a \$4-billion additional cost. There was a lot of work that went into being able to say, “Well, you know, these are accountants. They always do that.” There's a lot of work that goes into that.

Mr. Ross Romano: Perhaps if I could ask you this: You make reference in your report, in terms of recommendations, that we need to restore a relationship with the Auditor General. Would you not agree that there was, essentially, an attack on the Auditor General that happened from the former government? Is that not a fair—

Mr. Gordon Campbell: No, I wouldn't say that. I would say that they decided to ignore the Auditor General. Whether they were attacking the Auditor General or not, I don't know. They decided, specifically, not to pay attention, and to create a way of being able to say, “See? We don't have to pay attention.” The Auditor General said, “Well, yes, you do. We have a reserve.” And we're agreeing with the Auditor General.

Mr. Ross Romano: I'm going to ask you to pause there. You said they found a way to say, “See? We don't have to listen to the Auditor General.” Is that not the part about this accounting dispute? Is that not what you're referring to?

Mr. Gordon Campbell: Yes. I think that they should have tried to work through this with the Auditor General. The Auditor General certainly gave them an opportunity to do that on the pensions, and I'm sure the Auditor General, in a constructive relationship, would have been

able to work out something with them on hydro. Whether they got what they wanted is a different thing.

Mr. Ross Romano: Isn't it fair to say, though, that this term, continuously used—"Oh, this is just a dispute between accountants": Isn't that terminology that was used—

The Chair (Mr. Prabmeet Singh Sarkaria): Less than a minute.

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Mr. Gordon Campbell: From my perspective, yes. It shrinks the size of what the problem looks like.

Mr. Ross Romano: Okay. And that would have been there to—

Mr. Gordon Campbell: We didn't have a discussion in the commission about that.

Mr. Ross Romano: Fair enough. My last question—I only have a little bit under a minute left here. Dr. Rosen, you've made reference to, "If I had to look for fraud, I could find fraud." That's not the mandate of this committee, but with respect to what you saw and what you've reviewed, specifically with respect to the pension assets as well as the Fair Hydro Plan, would you characterize that as a fraud?

Dr. Al Rosen: The proof for fraud is intent, and it's very high. In my experience, it's even higher in the Ontario courts. I don't think I could get to that level without a couple of years of work, so I just have to say no.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, if I could just interject there: The mandate of the committee is not to see if we found fraud, the way you've framed your question in that sense, so—

Mr. Ross Romano: With the greatest respect, this has been something we dealt with earlier and, of course, the question has already been asked and answered. I just think it's important—when we look at the mandate of our committee. We're here to investigate the report of the commission: the accounting practices, decision-making and policy objectives of the previous government. In order for us to be able to look at the accounting practices and the policy objectives and then the decision-making in respect of those, we do need to delve into that.

The Chair (Mr. Prabmeet Singh Sarkaria): I understand that. In the characterization of the question, how that was—

Mr. Ross Romano: Yes. I was just repeating a word that was used earlier—

The Chair (Mr. Prabmeet Singh Sarkaria): I know that it was repeated by the members of the panel, but just in asking the questions, I'd ask you to caution on keeping it to within the mandate.

That concludes the 20-minute period here. We'll shift it over to the opposition, to Ms. Fife for 20 minutes.

Ms. Catherine Fife: Thank you for being here. It is important, just for clarification: The language that was just being used was a direct quote from the Premier. I think we're trying to figure out how to make this select committee productive, if you will, and actually learn from what has happened and correct some issues that have come

about to lead us to this fiscal situation, which, I think we share, we're all concerned with in the province of Ontario.

That leads me to picking up around the Auditor General's reports and her concerns around the accounting treatments. I just heard Mr. Campbell validate this: You fully support the Auditor General's recommendations as they pertain to the dispute with the pensions and, I believe, with the regulated accounting change that was used around the Fair Hydro Plan. The panel is unanimous that you fully support the Auditor General; is that correct?

Mr. Gordon Campbell: We support the Auditor General, yes.

Ms. Catherine Fife: You do, unequivocally?

Mr. Gordon Campbell: I think it's important to note how we supported the Auditor General with regard to the pensions. We said that they should accept the Auditor General's recommendations and they should work with the Auditor General to resolve that because there's clearly a resolution to that in the future.

Ms. Catherine Fife: And that's helpful because I think this particular Auditor General and her office for the last three years have been in uncharted territory. I chair the public accounts committee, and we attended a national convention. It was very good to see the Auditors General from across this country support her in her evaluation of the financial statements and her dispute, which is not really a dispute because she was right and they were wrong. It was very good to see Auditors General from across this country support her on that.

However, in your report you recommend following the auditor's accounting treatment of pension plans, but only on a provisional basis. Why provisional? Is she right or is she wrong, and why did you just not make a recommendation that the adjustment be made and that we move forward based on the Auditor General's advice?

Mr. Gordon Campbell: The Auditor General's advice today is based on what the Auditor General has before her today. If the government would like to take some of that asset and apply it, they have to get agreement from their joint partners, and that's what the Auditor General said. So the Auditor General will be able to attribute some value to those. If they have a specific agreement, the Auditor General will look at that and say, "Fine."

Our point was: You are working together. The Auditor General and the government really should be working on the same team. If you have some objectives, let's lay them out and let's have the Auditor General work with us, and we'll work with her—at this point, it's a her—and we can come to a resolution. That's what we were trying to say. I think that's fair to say.

Ms. Catherine Fife: Would anybody else like to—

Dr. Al Rosen: Yes. Please, everybody, don't ignore the valuation of assets when you're talking about pensions because they're extremely volatile. The Ontario Teachers' Pension Plan, if you look at their report and you go through it, over half of their assets are valued on what they call "level 3," which means, "We don't have any market values and, therefore, we're coming in with various other techniques"—so, provisional in the sense of who knows where

those assets are going to be. If you brought in a different group of outside auditors and valuers, it may be a negative.

The Chair (Ms. Catherine Fife): Okay.

Mr. Gordon Campbell: That's a recommendation on page 15.

Ms. Catherine Fife: Yes. But on page 14, you state that the answer made to split the difference. So the portion of pension assets that "should be recognized may fall somewhere between the two extremes of 50% and 0%." Do you think that's reasonable? How did you get to that point?

Mr. Gordon Campbell: Well, it was actually pretty commonsensical. They think they wanted to have the full 50% value align for them; right? A reasonable outside observer would say, "Okay, but how do I know you'd get the full 50%?" Why wouldn't the government go and get a letter from their partner saying, "Yes, a full 50% goes to you." That's all they needed. So, given that they can't get the full 50%, it's equally, for me as an outside observer, difficult to believe they'd get 0%. So the way you bring those two things together is to do what the Auditor General recommended they do, which is to get an agreement saying, "This is what's going to happen."

Ms. Catherine Fife: And so the impact on the deficit would be?

Mr. Gordon Campbell: Well, the impact on the deficit of dealing—

Mr. Michael Horgan: \$2.7 billion.

Mr. Gordon Campbell: —\$2.7 billion is if they get nothing, and a \$2.7-billion benefit is if they get everything.

Ms. Catherine Fife: And you met with the auditor and you discussed this with her?

Mr. Gordon Campbell: We did, yes.

Ms. Catherine Fife: Okay. Thank you. I just want to move over—

Interjections.

Ms. Catherine Fife: Do you think that you can do something about that?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. Mr. Baber and Mr. Romano, just—

Ms. Catherine Fife: When the Auditor General came before us, her office raised some concerns around a decision that was made by the Independent Electricity System Operator, IESO, which manages the province's power system, and they moved to retroactively change the accounting for an unrelated five-year-old transaction.

Now, they just happened to see this on their website, and then the Auditor General determined that the accounting policy change was needed to set the stage for the legislated accounting changes to come. Her office says, "We learned that the Ministry of Energy, with assistance from the accounting firm KPMG and several law firms, was leading the accounting objective of deferring the current cost of the rate reduction to future years."

Now there was input from senior management, IESO and also the provincial controller, who we hope to actually call before this committee as well.

Mr. Rosen, do you think you would like to comment on accounting firms and the role that they play in adopting various accounting treatments? Is there a trend that we, as a Legislature, should be aware of when you have agencies like this—Ernst and Young, KPMG, whatever—come in? Obviously they're making money from the government of the day, whoever that may be, and then they're called to use various treatments to meet the ends, if you will.

Mr. Al Rosen: Excuse me just for a second. Is it possible to pass out—I gave you that bunch of items. Yes.

The Chair (Mr. Prabmeet Singh Sarkaria): The report?

Dr. Al Rosen: Did it go around?

The Chair (Mr. Prabmeet Singh Sarkaria): It's been handed out to the members of the committee, yes.

Dr. Al Rosen: Okay. If you flip into there, you can see there was an article just published in the Canadian Accountant.

Ms. Catherine Fife: Oh, there you are.

Dr. Al Rosen: Yes. Does it look familiar?

Ms. Catherine Fife: Yes. You look grumpier in this picture.

Dr. Al Rosen: I didn't pay you to ask that question, correct.

This has been a problem for a long time of the independence of auditors.

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Ms. Catherine Fife: Yes.

Dr. Al Rosen: You will find that there's something coming out in one of the magazines at the end of this week. I haven't seen the article, but I have been quizzed about it by various people. If you look at England, you're going to find that there's a huge outcry there about the lack of independence of auditors and certain consultants.

I can't honestly answer the question without saying it's easy to find my name associated with the necessity of change in that whole system. Self-regulation in Canada in auditing and accounting stopped working at least 20 years ago. We've seen endless examples of that as a problem.

Ms. Catherine Fife: So the public sector accounting standards—their goal is to modernize the standards, if you will. I think it was Mr. Campbell who mentioned that people are watching Ontario for best practices. When you see our books, as they sit today, with a government using multiple accounting treatments, picking and choosing accounting practices, as you said—I mean, this is a serious issue, from an accounting perspective and from an economic confidence perspective.

Dr. Al Rosen: This book has to be revised in several places. Some parts are excellent, others are contradictory. It has to be revised.

Ms. Catherine Fife: Who is heading up PSAB then? Who is in charge of setting these standards so that a province like Ontario—such a large province, such a powerful province—can actually still employ these practices?

Dr. Al Rosen: We're back to the same point again. I don't like that this is published by the Canadian CPAs and run out of there. I do not know how those people are

appointed. That is something that I have in the back of my mind to try to find out.

Ms. Catherine Fife: If you have recommendations for this committee around making recommendations at a higher level, to build confidence around accounting practices in Ontario, we certainly would welcome those.

I'm going to pass this off now to my colleague—

Dr. Al Rosen: Okay; excuse me. I could very well—I have to check with somebody because I have already put some of that in writing, but I would have to get permission to turn it over to you.

Ms. Catherine Fife: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof—oh, sorry.

Mr. Gordon Campbell: We also recommend that the government of Ontario make its decisions on what it would like to advocate and then take an active role in public sector accounting.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof.

Mr. John Vanthof: Thank you all for coming. I've learned a lot. Some of the comments, the more flippant ones, are actually the ones that I've—so at one point, I can't remember which one of you said that the problem with this is you need a PhD or an accounting or legal background. I have neither; I'm a farmer. But a lot of the stuff makes sense to me because—and I just want to bring this to real layman's terms.

You talk about GDP. When I bought a farm 30 years ago, I was young, and interest went from 10% to 24%. I almost had the shortest farm career in history. I had a very small mortgage, relatively speaking; right? Thirty years ago, my mortgage was 30 times as big, but my gross product was 100 times as big. So although my mortgage was much bigger—my kids didn't want to take my farm over, but I thought I was very successful.

So when we talk about debt and deficit—and I'm not trying to minimize what's going on here, because I think we kind of agree that Ontario has a debt and deficit problem. But when people simply throw the debt number out, you have to relate it to the actual productivity of the province for it to be a relative term. Am I correct in thinking that?

Interjection: Yes.

Mr. John Vanthof: All right. I want to return to, I believe, Mr. Rosen talking about the sale of Hydro One and how it's reflected in the books. I believe it's a quick ticket to bankruptcy. Again, I'm going to relate it to the farm. When times were tough, you knew your neighbours were in trouble when they started to sell the cows to pay the feed bill, because the next day they didn't have enough cows, they didn't have enough milk, and their income went down and slowly—because they were selling their long-term assets to hide their short-term problem, their deficit. Am I correct in saying it's the same with Hydro One? Whether or not you agree or disagree with the sale of Hydro One, selling a portion of Hydro One, which is a long-term income-producing asset, and using the proceeds from that to—

Dr. Al Rosen: Not the proceeds; the gains.

Mr. John Vanthof:—the gains from that to make the deficit smaller is not a long-term, successful practice.

Dr. Al Rosen: Across the world, that concept is accepted by most countries. What you're saying is common sense, but it's also written in—in fact, I can find you a section in here where it says you don't do that.

Mr. John Vanthof: I think any successful business person would agree that it's not a good practice. But it is an accepted practice under our standards?

Dr. Al Rosen: Well, it was recorded that way. As Mr. Campbell says, I think the transparency wasn't there unless you did some work. What did they do with the balancing figure, is where I started—and it turned out to be a reduction of the deficit, which is unacceptable in my language, and therefore the 15 becomes higher than that.

Mr. Michael Horgan: The Auditor General of Ontario—and as far as I know, in any other jurisdiction in Canada—did not dispute the accounting treatment of the sale of Hydro One. Whether you believe that was a good thing or not, this was not the area of dispute between the Auditor General of Ontario and the government of Ontario. The accounting treatment, from the Auditor General's point of view, was correct. We can agree that maybe the accounting treatment should change and the Public Sector Accounting Board should change the standard for that. But this was not the issue of dispute with the Auditor General.

I think Al makes a good point, however. When a government is making asset sales, those are one-off transactions, and to pretend that those one-off transactions are the base case going forward, I think, is misleading. To the extent that the government did that and kind of said, "Well, the underlying deficit is lower by the amount of this sale"—one-off or three times in three years—it's a question of transparency, then, about what the underlying deficit is. But it was not an issue of dispute between the Auditor General and the government in terms of the accounting treatment.

We talked to people about it, and you can agree or disagree—and I don't have a view on this—but part of the argument for the quasi-privatization of Hydro One was that you would have a kind of more private sector management of the firm and that would be beneficial in terms of the management of Hydro One going on. That was an argument. I'm not saying—

Mr. John Vanthof: We can agree to disagree on that one.

Mr. Michael Horgan: I'm not saying I agree with it, but there was an additional argument for that that was being made at the time. That's all I'm saying.

Mr. John Vanthof: At no time did I say that was the issue. But the sale of Hydro One is part of the report. I think, looking forward at the long-term financial situation of the province, it's not merely just an accounting exercise; it's actually a physical exercise.

I'm going to go back. In looking at the partial sale of Hydro One—because part of Hydro One still belongs to the province. There are other crown corporations that

belong to the province. Actually, as for a revenue stream for the province, it says in the report on page—I forgot my glasses—but that government businesses, their revenue is more stable than taxation, so I would like, specifically from Mr. Rosen, a recommendation on how, in the future, those sales—as it relates to Hydro One, because we’re looking at the future. This committee, unless it’s going to have to have some impact on future decisions—and not political decisions, but how these decisions are related to the public. In the sale of an income-producing asset such as the sale of half of Hydro One, how do you be transparent to the people of Ontario on the ramifications of that? How should that be reported, in your opinion?

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The Chair (Mr. Prabmeet Singh Sarkaria): Just under a minute left to answer that.

Dr. Al Rosen: Can I just read this? There is something in the book itself. It’s section PS1100, paragraph 55. There it says, “Some transactions, such as the sale of a capital asset, may give rise to an accounting gain or loss, which is included in the determination of results for the accounting period. The cash flows relating to such transactions are, however, cash flows from capital activities.”

It’s not great wording in the paragraph, but at the end they make the point that this should not have been run through deficit. So it’s a difference; Mr. Horgan and I have a difference on the mandate.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Mr. John Vanthof: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): So we’ll go back over to the government side for 20 minutes of questioning. Mr. Baber.

Mr. Roman Baber: Thank you, Chair, and thank you, commissioners. Thank you for your excellent work. I’d like to start precisely where Mr. Rosen left off and perhaps try to bring this issue to a conclusion. Mr. Rosen, what you’re effectively saying is that the government sold the shares in Hydro One, correct? Or at least part of its shares in Hydro One.

Dr. Al Rosen: Over three years.

Mr. Roman Baber: Right. And in the last two fiscal years it recorded it as a one-time gain against its deficit, correct?

Dr. Al Rosen: Yes. I haven’t seen the third year, so—

Mr. Roman Baber: It’s like I would sell my house and I would say that the entire price was actually annual income, correct?

Dr. Al Rosen: The selling price, but you paid something for it. What we’re talking about is the gain. So if you sold for \$100 and it was on your books at \$20, what do you do with the \$80 difference? So it’s the \$80 I’m talking about, not the \$100.

Mr. Roman Baber: Of course, in that hypothetical bizarre universe, I would not be counting the proceeds to discharge the mortgage against my annual income. I say to you simply that the government took the net gain and credited it against its deficit even though it’s effectively a one-time sale.

Dr. Al Rosen: Yes, one time three times.

Mr. Roman Baber: One time three times, over three. Objectively, I don’t think you need to be an accountant to understand that there is something wrong here. It’s misleading.

Dr. Al Rosen: Yes, but that paragraph I read out, you can interpret it more than one way and maybe that’s what the Auditor General did. But they’re also saying that cash is an investment transaction.

Mr. Roman Baber: Fine.

Dr. Al Rosen: So it should not have been run through the deficit.

Mr. Roman Baber: Right. So for the year 2017-18, when the government told us it had a balanced budget, it in fact factored the proceeds from the shares that year into that year’s budget, correct?

Dr. Al Rosen: Correct.

Mr. Roman Baber: So when the Liberal government told us that for the year 2017-18 it had a balanced budget that was baloney.

Dr. Al Rosen: Do I ask for a definition of “baloney”?

Mr. Doug Downey: It’s a technical term.

Dr. Al Rosen: It was inappropriate. How’s that?

The Chair (Mr. Prabmeet Singh Sarkaria): Just a caution: Parliamentary language, please.

Mr. Roman Baber: Thank you, Mr. Rosen. I’d like to take a step back and perhaps reintroduce some of the issues we’ve been dealing with today. First of all, I understand that the mandate of the commission was to perform a retrospective assessment of the government’s accounting practices. That’s according to the report. Am I correct?

Mr. Gordon Campbell: It was to give the government our assessment of what the baseline budget was for 2017-18, what it should read. We were asked to do it by, I think, August 31, so that it could be included in their consideration of the public accounts, and then we were asked what we think the situation is for 2018-19. That’s what we were asked. We weren’t asked to go in and review all the accounting practices of the government of Ontario and the different entities; we were asked to answer the other two larger, higher-level questions.

Mr. Roman Baber: Understood. And on page 3 of your report—

Mr. Gordon Campbell: They’re much higher-level than accounting is.

Mr. Roman Baber: On page 3 of your report, Mr. Campbell, you say that the scope of the commission was to assess “whether the government’s past accounting practices provide an accurate picture of the province’s finances,” to assess “whether the budget ... for 2018-19 is prudent and complete” on the basis of the latest information, and assess “whether the current fiscal planning framework supports the development of a practical fiscal recovery,” among other things.

Mr. Gordon Campbell: Right.

Mr. Roman Baber: And I understand that the approach that you have taken, the top-line approach, is the commission asked the simple question: “Do the government’s accounting policies, historical reporting and

forward-looking plans properly illuminate taxpayers' current and future obligations?" Is that correct?

Mr. Gordon Campbell: I think that's fair, yes.

Mr. Roman Baber: And would it be fair to say that at the end of your inquiry, the conclusion that you have arrived at is that the answer is no?

Mr. Gordon Campbell: Yes.

Mr. Roman Baber: That would be correct?

Mr. Gordon Campbell: Yes.

Mr. Roman Baber: So your conclusion, having conducted the review, is that the government's accounting policies, its reporting and its plans do not properly reflect the reality that our new, incoming government and the people of this province are saddled with today?

Mr. Gordon Campbell: Correct.

Mr. Roman Baber: Thank you. So now I'd like to talk about some of the specifics. First I want to talk about pensions. A lot has been said about pensions. I just want to simplify the issue, if I may, Dr. Rosen. There is consensus among the profession, among essentially all accounting professionals, that in order to credit the net pension asset—that is, the anticipated overpayment—there needs to be some sort of an agreement among the co-sponsors of the joint plan as to how to—

Dr. Al Rosen: It's in the book here.

Mr. Roman Baber: Well, for the benefit of the Legislature, which may not be able to finish that book in a timely fashion, I'd like to put it to you simply, Dr. Rosen, and I hope that you indulge me. Thank you. So there is consensus in the profession that, in order to credit the net pension asset to your annual balance, there needs to be an agreement as to how to value that pension asset, and if you can't claw back, if you can't take any of that money out for your own benefit, at the very least there needs to be an agreement to take a pay holiday or a pay reduction. Is that correct?

Dr. Al Rosen: You started not too well. When you say there is agreement, it's not as wide as you were saying. What it is is, for people who use this—which is not necessarily every province in Canada, from what I've learned—it so happens that the signature of the auditor general says that this book applies. So if you can narrow the question down to say there is a body of thought that supports this, and that you also have to have the agreement of your other party if it's a joint venture, then I can say yes to your question.

Mr. Roman Baber: Dr. Rosen, that is specifically what we're discussing. We're discussing a joint plan where we have joint sponsors. One is the provincial government; the other one is the applicable union, be it OSSTF or OPSEU, in the case at hand. But, with respect, I have to disagree with you a second time, Dr. Rosen. Even the expert panel commissioned and paid for by the Liberal government agreed that in order to avail yourself of the net pension asset, there needs to be an agreement between the co-sponsors of the plan to take a pay holiday or a reduction.

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Dr. Al Rosen: Yes, we're saying the same thing.

Mr. Roman Baber: Wonderful—and that agreement to take a pay holiday or a reduction of value did not exist.

Dr. Al Rosen: Sorry?

Mr. Roman Baber: There was no agreement to take a pay holiday.

Dr. Al Rosen: As far as I know, yes.

Mr. Roman Baber: Okay. So it would be inappropriate to add the net pension asset into the annual budget?

Dr. Al Rosen: Yes.

Mr. Roman Baber: Nonetheless, the provincial Liberal government has done it three years in a row.

Dr. Al Rosen: Yes.

Mr. Roman Baber: So again, I put to you that when the Liberal government told voters in 2017-18 that it had a balanced budget, that was not true.

Dr. Al Rosen: Correct.

Mr. Roman Baber: Thank you, Dr. Rosen.

Dr. Al Rosen: You must be a lawyer.

Laughter.

Mr. Roman Baber: I want to go back to the hydro scheme now. I want to try to take this complex structure, perhaps distill it for the benefit of this committee's report and see if I understand it correctly.

The commission has concluded that, in an attempt to keep the borrowing associated with the Fair Hydro Plan off the provincial books, it has devised a complex scheme. The scheme was that borrowing would be done off-book through a subsidiary of OPG. Is that correct?

Dr. Al Rosen: Correct.

Mr. Roman Baber: So what the government did is it borrowed money from the capital markets to the tune of about \$1.2 billion and it injected it as an equity injection into OPG. Correct?

Dr. Al Rosen: Correct.

Mr. Roman Baber: And then OPG went out and also borrowed about \$1.3 billion, and it lent that money to OPG Trust.

Dr. Al Rosen: Yes.

Mr. Roman Baber: And between the two, OPG Trust now has about \$2.5 billion a year, and it purchases a notional asset from the IESO—essentially, the discount that the IESO gives ratepayers on their electricity bills.

Dr. Al Rosen: Yes.

Mr. Roman Baber: Thank you.

Dr. Al Rosen: Well, the next step, though, is, is that a legitimate asset in the sense of, is it collectible, and if so, over what period of time?

Mr. Roman Baber: That's a very important point. I understand that, Dr. Rosen. In fact, the trick here is that we may not have certainty as to what the future will look like, what future governments may do, what the electricity market will look like, which is why the structure is very risky.

Dr. Al Rosen: Correct—which reminds me, when you talk about the group of people who were consulted on this, you have to check into arm's length. Did it exist or not?

Mr. Roman Baber: If I may understand, what you're suggesting is that you recommend that this committee looks into the various professionals associated with the

division of the Fair Hydro Plan and investigates whether they're, in fact, independent experts or whether there may be some ties with the former Liberal government?

Dr. Al Rosen: That's your choice, but certainly there is a concern arising from what happened as to whether the independence of who was consulted was appropriately checked. My suspicion is that it needs checking. I don't have evidence at this point of some absolute wrongdoing.

Mr. Roman Baber: But Dr. Rosen, you're saying that given the fact that the transaction, on the face of it—how would you characterize the transaction, then, the Fair Hydro Plan, if your suggestion, if your suspicion and your recommendation is that this committee looks further into the independence of the advisers who assisted the government in formulating the plan?

Dr. Al Rosen: I've worked for all of these firms at one time as a consultant or whatever it happens to be, so I understand how they operate. The point is, I think the whole system used by each of the provinces needs a close look so that the same consultants don't magically win these various contracts over and over.

Mr. Roman Baber: Thank you.

Dr. Rosen, I'd like to take you to page 20 of the report. The commission adopted the suggestion by the Auditor General, who in turn adopted the suggestion by the FAO, that the Fair Hydro Plan and the scheme associated therewith has ended up costing taxpayers \$4 billion more than it would have if the government went and proceeded to borrow the money directly. Is that correct?

Dr. Al Rosen: I did not check whether the \$4 billion—

Mr. Gordon Campbell: Up to \$4 billion.

Mr. Roman Baber: Up to \$4 billion, Mr. Campbell?

Dr. Al Rosen:—but the concept of what was going on, of course, is not something that you overlook.

Mr. Roman Baber: That is because OPG and OPG Trust borrow at higher rates than the Ontario government would, correct, Mr. Campbell? I see you're nodding.

Mr. Gordon Campbell: Yes.

Mr. Roman Baber: In the middle of page 18 of your report, I quote: "The implementation of global adjustment refinancing reduced transparency by preventing the costs of the planned electricity subsidies from being reported as expenses when they were incurred." Basically, what you're saying is, the government tried to hide the expense, correct?

Mr. Gordon Campbell: They certainly didn't want it to be obvious.

Mr. Roman Baber: But then on page 19, Mr. Campbell, you also say that the province was required to provide a guarantee for the refinancing, and as a result, a number of credit agencies already treated it as provincial debt. Correct?

Mr. Gordon Campbell: Yes.

Mr. Roman Baber: The point is, for the market to accept this risky structure, the government had to provide a guarantee. But when you guarantee something, the market typically treats it as your debt, correct?

Dr. Al Rosen: Correct.

Mr. Roman Baber: Thank you, Dr. Rosen.

Let me get this right. The Liberal government chose the more expensive path—\$4 billion more expensive. It tried to hide the expense off the books, but at the end of the day, on top of the deficit scheme, it really changed nothing, because the markets, rating agencies, credit agencies and our creditors all treated it as Ontario debt nonetheless, right?

Dr. Al Rosen: To a point, but at some state, they may start talking about increments in the interest rate, that the risk is getting higher than they want. So I think you have to look at it over, maybe, a 15-year period.

Mr. Roman Baber: My point is—

The Chair (Mr. Prabmeet Singh Sarkaria): Just over two minutes—and careful on the imputing motive of "hiding." Thank you.

Mr. Michael Horgan: I guess—

Mr. Roman Baber: If I may just finish my point. The point was to put the expense off the books, incur an additional \$4 billion of interest that taxpayers didn't need to incur, and at the end of the day, because of how guarantees work, the debt was still imputed to the province. Is that correct?

Dr. Al Rosen: Yes.

Mr. Roman Baber: Then Dr. Rosen, I ask you—that begs the question: What was the purpose of the shell game, of this multi-billion dollar burden that they saddled future generations with? I put it to you, sir, that the only remaining answer is politics. What else could it be?

The Chair (Mr. Prabmeet Singh Sarkaria): Motive again, Mr. Baber.

Mr. Roman Baber: With respect, Chair, I'm not imputing.

Dr. Al Rosen: You're asking me for a best guess as opposed to a proof.

Mr. Roman Baber: Yes.

Dr. Al Rosen: In court I would not reply to that type of question, but my suspicion seems to be the same as yours.

Mr. Roman Baber: That it was politics at play?

Dr. Al Rosen: Yes. I don't have any evidence.

Mr. Roman Baber: Thank you, Dr. Rosen.

Mr. Michael Horgan: The only point I was going to make is that although the government of Ontario guaranteed that the actual price for that debt was—I forget the number, but 40 basis points higher than the borrowing rate of the government of Ontario itself. It was a pretty big deal for the lenders.

Dr. Al Rosen: But this will increase over time.

Mr. Roman Baber: In fact, Dr. Rosen, we don't even know the ultimate cost. Right now, the government tells us that the cost is roughly \$45 billion, but that is predicated on the suggestion that we run balanced budgets. As the province continues into deficit spending, the ultimate price for the Fair Hydro Plan may vastly exceed that number.

Dr. Al Rosen: It's certainly a possibility.

Mr. Roman Baber: Is it a likely possibility?

Dr. Al Rosen: You seem to be asking the question—

Mr. Gordon Campbell: It is, in view of what the political parties have advocated in terms of electricity

rates. No one has even come close to suggesting that electricity rates will go up at 9% a year starting in, I think, 2021.

Mr. Roman Baber: So, in fact, the \$45-billion price tag—

Mr. Gordon Campbell: You can't tell what it's going to be.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That concludes our time for our questioning. If it's okay with the committee, we propose a quick 10-minute recess, so we will be back at 3:22 if that's agreeable. The committee is in recess until 3:22.

The committee recessed from 1512 to 1522.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee is now resuming. The next 20-minute session will be for the opposition. Ms. Shaw, please. Thank you.

Ms. Sandy Shaw: Thank you, Mr. Chair. I want to go back to page 20, when we talked about the partial divestment of Hydro One, and I wanted to direct my questions to Dr. Rosen.

Dr. Rosen, it's my intention to start out well, so I'm hoping that I'm able to do that. In that section, you talked about how "government business enterprises such as Hydro One, Ontario Lottery and Gaming Corp. and the Liquor Control Board of Ontario are treated as financial assets under PSAS." What we've been hearing this morning is that PSAS needs improving and is not necessarily adequate to help us understand, perhaps, certain situations. My question to start with is: Would you say that under PSAS "government business enterprises" would be clearly defined?

Dr. Al Rosen: Not to my understanding of what you have to do with certain things. Some of it I can read, and it's okay. Other parts—once you extend it into different types of corporations, I don't think it's adequate as a definition.

Ms. Sandy Shaw: Okay. So that's not necessarily a recommendation you made, but maybe we could take that as a suggestion—that when we move forward looking at government business enterprises, we might want to be clear on how we're defining them under the PSAS accounting treatment.

Dr. Al Rosen: Yes. If you go to the sections—they're side by side—of what's a financial asset and what's a non-financial asset, I can read them as contradictory.

Ms. Sandy Shaw: Okay. That's really helpful.

Then the report goes on to say, "The public deserves to know the long-term fiscal implications of these transactions," or, as Mr. Horgan described them, privatization. We're talking about the selling-off of these assets. You went on to say, for two reasons, why the public deserves to know. One is that "they can mask underlying deficits," which we've been hearing about. Then the second piece, as you say, is that "they require the government to forgo future revenues."

Mr. Baber was talking about that before the break. He was suggesting that the one-time sell-off to be used to reduce the deficit may not have been the wisest thing or may not have been treated properly in the accounting. My

question is around the two reasons why we need to understand these transactions: that they mask underlying deficits and they require the government to forgo future revenues. I guess my question is, going forward—because we're talking about what has happened, but we're also hoping that these recommendations will give a baseline that, going forward, will help us as legislators and also help the public. We keep talking about being transparent and accessible for people to understand what has happened.

Can you talk about ways that future governments could help to be clearer about how the privatization or the sell-off of government assets would mask the underlying deficits and what reporting standards we will use to make sure that they are not masked going forward?

Mr. Al Rosen: This would take time to go through various committees to amend this public sector handbook. Meanwhile, what you can do, which is playing cricket with the accounting and reporting, is to set up your own policies and say, "We're following the public sector handbook, except for the following," and then you define your own terms. Then you hope the other provinces will look at it and say, "That's a good idea. We'll adopt it as well," and eventually it gets into a revision. In the short term you definitely have to say, "No, these are the rules we're following in Ontario."

For example, I have difficulty in reading the material—when is the priority on the surplus versus deficit calculation and when it is on the financial assets and non-financial assets? Over time you can see how different members of the committees have probably put in their favourite clause or sentence here or there. Those would have to be scrubbed out. You'd have to take the time and have a vote on it and get rid of them.

My recommendation would be, let's start first with having Ontario's policies clearly spell out what's included and what isn't, and then say for other matters, "This is what we're referring to."

What we can't do is allow something like IFRS, which scares me to death, as I think I said before—and there are a lot of examples of it being imposed because there's a general clause in here saying you can use other standards where PSAC is silent. Those other standards cannot be totally different conceptually and in measurement and other terms, and that's what I think has happened in Ontario for the last 15 or 20 years.

Mr. Gordon Campbell: Can I just say, to make it sort of simple: You can decide what you want your public accounts to reflect and you can be explicit about how you expect it to be reflected. So how would you reflect it if you sold a public asset? Would it be used to write down deficit, to take out debt? You can't do it? That's a choice that a government can make.

Once you've decided on that financial framework for the future, then I think you adopt it here, but you have to go and advocate at the public sector accounting standards because they don't just say, "Whatever Ontario wants." You have to go and advocate for it across the board. It has to be something that is engaged in on an ongoing basis.

I can't tell you that if you go in February 2019 it'll be delivered by February 2020. It's part of the process of building these public sector standards in Canada, which are likely different from public sector standards in the United Kingdom and they're different from public sector standards in the United States. We have to decide for ourselves what we want. You have to decide for yourself here in Ontario what's best for you, and then, I think, be explicit about what you're doing so the public understands it.

Ms. Sandy Shaw: Right. That's the problem, to be frank, that I have as a novice MPP—looking at ways, as a member of the loyal opposition, and trying to assess, if the government were perhaps to propose future privatization or the divestment of certain assets—if that happened this term, would we have any clear understanding of the impact of the long-term fiscal implications of the underlying deficit or how it would impact future revenues?

I'm not sure, to put it simply, that—we're saying that they need to be made clear and you're saying to the public. What I'm saying is, as a member of the opposition, for me to be able to weigh in on the government's proposal, if that's the case—to understand whether it's plausible, to understand whether it impacts revenue or deficits. We don't necessarily have a standard that will allow us to make those determinations.

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In the absence, I guess, of clear accounting treatment—which, in some ways, is after the fact—what would we do, going forward, to make sure when we are getting ready to make that decision on a transaction? What information would we need, both as the public and as legislators, to understand proposed legislation? How are we going to be assured that this commission has helped inform that and illuminate those decisions a bit clearer for all of us?

Dr. Al Rosen: There should be a motivation on the government side to not get caught up in this mess in another three or four years because the credibility is at stake. If you live with this type of thing, then you're painted with the same brush as the former government. So there should be an incentive to look at some of the weaker parts and chip away at it. On that basis, I don't understand why you wouldn't get agreement across all parties, really, because you can't keep doing the same thing and expect to be respected for it.

Mr. Gordon Campbell: I'll just say one more thing, and that is that we often spend time in public life talking about what we disagree on. I think if you focus on what you agree on, you can often find a place where you come together. Who on this committee is going to put up their hand and say, "I don't agree with transparency"? I'm assuming none of you would. You would say, "We want to have transparency here. We want the public to understand." You can bring in your own professionals here. You've got a good, strong, non-partisan public service here who are professionals, who could come and say, "Here are some of the ways that you move to that level of transparency." Bring it to your committee, and maybe you'll surprise yourself and you'll find that you all agree.

The thing that I think is critical for the government—if I was in government—the opportunity for the government is to show the public what you're doing: "This is what we're doing for you, so you can hold us to account." It will be tough, but you'll live with it and you'll start to rebuild the credibility that I think was lost, and not just from the previous government here. Too often, people would say—and what I found with regard to this: "Oh, governments always do it." Governments don't always do it, but we have to be able to show how they can tell that we don't. We can say it as much as we want; it won't matter. The public's got to be able to say, "Yes, they've laid this out so I understand it and so I get what's taking place."

Ms. Sandy Shaw: I agree with you. And I do agree that the idea of being fair and transparent is something that we all agree on, but I guess where we want to get some particulars going forward would be on the mechanism.

Mr. Gordon Campbell: Right.

Ms. Sandy Shaw: We can talk about fair and transparent and accountable, but in terms of something as large as a proposal to divest a government-based business, what would the actual mechanism be that you could recommend based on your inquiry? What would be different, going forward, in terms of raising the bar, in terms of access to information? Give the opposition and the public independent, clear information so that we can determine if this is a plausible recommendation, and so that we have a good, transparent and open way to understand how this impacts future revenue and how this impacts the deficit. We need that information to make good decisions.

We agree: Things need to be fair and transparent. What is the mechanism going forward?

Dr. Al Rosen: It's still a matter of going through what's here and looking at the weaker sections and chipping away, bit by bit, to get each other's confidence that this is worthwhile. Rank what is the weakest and second weakest and start the process, and from there make the amendments that you have to get to progress.

I can't really see the government side wanting to live with some of these things, because they're going to get accused of going along with things that are a little too tricky.

Mr. Michael Horgan: I think Al is right. It takes a long time to get the Public Sector Accounting Board to make changes. Ontario should decide, I think, what changes it wants and then pursue that aggressively with the Public Sector Accounting Board—understanding, however, that it's going to take time.

Al is suggesting that, in the interim, maybe there are things that the government of Ontario could adopt in terms of changing some of its accounting practices. I don't agree or disagree with that, but one thing I think you'd have to do if you were going to go down that route is, you would have to make sure that the Auditor General of Ontario is onside with the accounting standards changes that you are proposing.

So there has got to be a pretty open dialogue with the Auditor General of Ontario if you are suggesting making interim changes to your accounting standards, because I

don't think anybody wants the kind of situation that we've got ourselves in here in Ontario where the Auditor General is making reservations on the government's books. I think a key player, if you're going to go down that route, has to be the Auditor General.

I think also, whether you agree or disagree with the sales of these assets, that there could be a lot more transparency about how that is explained in budget documents and stuff like that. For the sale of Ontario Hydro—I say this, but I don't know this for a fact, but I'm sure that the Ministry of Finance in Ontario would—the deficit would be reduced in the year that the sale has taken place, but they would also, in their projections of future years, take out the revenues that were associated with it. That would be included as part of their projection of revenues from government enterprises. I don't know, though, that they're very explicit in the budget documents about that. That would be, I think—

Ms. Sandy Shaw: Right, and that's the fairness and the transparency that we're trying to improve on, is my understanding.

Mr. Gordon Campbell: I would agree with that. Can I just say this? I don't think you start with this book. I think you start in here, and you decide what you want to do in here, and then you take what you want to do in here and you try to apply it to this book using your professionals. I'm not a professional accountant, obviously, but you get them to help you with that.

When you decide to divest something, you should do the same kind of business case to divest something as you do to invest in something. Then you know what aspects are involved in it, right? Then governments do have the opportunity to decide they're going to sell something, and when they sell it, how do the proceeds get developed? You can answer those questions yourself without asking someone else. You can do it yourselves. You can ask your professionals, "What are the tools we use to do this, to reflect this properly to the public?" Then you say, "That's what we recommend." I think one thing that's really important is there are some really good, smart people here in Ontario, in the government, who can help you do that. But you have to decide what you expect from them.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife?

Ms. Catherine Fife: Thank you. Actually, I did have a private member's bill that did exactly that, because there has to be openness and transparency around any business transactions that the government takes. I'll have to reintroduce that, and maybe I'll have some willing partners here who will support me in that endeavour.

Just on the whole theme of trying to learn from what has already transpired—and I have to go back to the Auditor General's testimony when she came before us, just, I think, last Monday. She has already articulated many issues with trying to get information, including from the provincial controller of Ontario. They met with, as she described it, "atypical resistance" to inquiries. This is the Auditor General, who has a legal responsibility to access information and ran into resistance from both the partisan political side but also from some senior management.

She did reference one situation, and I wanted to get your opinion on it, please. She said, "Another odd aspect of this unprecedented accounting situation"—so this was referencing back to the IESO when they made that change—"was the comprehensive legal protection that the IESO and OPG sought and obtained for their directors, officers and employees. An agreement signed by the Minister of Energy between the IESO and the province, effective June 1, 2017, indemnified the IESO, its directors, its officers and its employees from a long list of possible actions against them, specifically in connection with the Fair Hydro Plan. A similar agreement was signed for OPG, its directors, its officers and its employees.

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Clearly, if these agencies were seeking protection from moving forward in this direction, they had some concerns. Have you ever encountered a government giving legal protection to the agencies who are charged with implementing the political changes that the government is proposing?

The Chair (Mr. Prabmeet Singh Sarkaria): Just under a minute 30.

Dr. Al Rosen: I haven't—

Ms. Catherine Fife: You've never heard of this before?

Dr. Al Rosen: —but again, I'm not in that business of going across the country. We have enough problems with the Toronto Stock Exchange.

Ms. Catherine Fife: You have problems with the stock exchange, yes. I think a lot of people are going to have problems with the stock exchange.

Any other commentary? Mr. Campbell, have you ever heard of this? You were the Premier. Would you ever protect your board—

Mr. Gordon Campbell: Well, if I'd heard of it, I wouldn't tell you about it now.

Ms. Catherine Fife: No. Well, that doesn't instill confidence.

Mr. Gordon Campbell: I haven't heard of it, no.

Ms. Catherine Fife: You're firmly in the message box, my friend. You've never heard of this.

Actually, the Auditor General found it. She requested information and she found this notice. They actually accidentally discovered that these agencies had sought protection from—

Dr. Al Rosen: She's entitled to pursue it, though, under her legislation.

Ms. Catherine Fife: Well, I think it sets a dangerous precedent if a government is saying, "Change this accounting practice," or legislating a regulatory rate change, and then protecting the people who are also charged in respect to protecting public interest.

Mr. Gordon Campbell: I've not heard of that.

Ms. Catherine Fife: You've never heard of that? Okay. Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): I'll now turn it over to the government side and Mr. Downey for 20 minutes.

Mr. Doug Downey: I'll start with Mr. Horgan. I just want to highlight that you were in public service for 36 years, in four departments federally, including the Department of Finance. How long were you at finance?

Mr. Michael Horgan: I started my career in finance, so I was in and out of the Department of Finance all my career, but for the last five years, I was Deputy Minister of Finance.

Mr. Doug Downey: So you had regular interactions with the federal Auditor General's office.

Mr. Michael Horgan: Yes, although the day-to-day interaction with the Auditor General's office would be through the Treasury Board, not through the Department of Finance. But I would have regular meetings with the Auditor General.

Mr. Doug Downey: I'm a process guy, so part of this for me is how things process. I understand some of the technical part of the pensions; we'll get to that. But process-wise, how would you characterize the relationship between the Wynne government and the Auditor General's office?

Mr. Michael Horgan: I think, as we say in the report, the relationship seemed to have broken down. I'm not particularly going to attribute blame on one side or the other, but it was pretty clear to us that the relationship was very poor at the end of the day.

The relationship with your Auditor General is always one that has a certain kind of tension, but I, having spent a long time in the federal public service, have never seen the kind of relationship between the federal Auditor General and the government of Canada that has existed here in Ontario. We had disagreements, but I can't remember the last time that there was a reservation on the government of Canada's books from the Auditor General of Canada, and that's going back a long, long way.

Do we always agree with the Auditor General? Are Auditors General always right? The answer to that is no, but at the end of the day, you have to have a kind of working relationship where you work things out. I know that for all the time I was in the Department of Finance, it would have been anathema for us to have a reservation from the Auditor General on our books. That may sometimes cause tension between us and the Auditor General, but it's a relationship that you have to live with. You have to have a respectful relationship with your Auditor General and then get on with it.

I think it's fair to say, and I think the others on the committee would agree, that our observation was that the relationship had really broken down here in Ontario.

Mr. Doug Downey: You used the word "respectful." I know you don't want to pick sides, but I think of it like a divorcing couple. You have an opinion. So who was more disrespectful?

Mr. Michael Horgan: Well, I mean, it's hard to make a judgment. It's sort of "she said and she said," right? It's hard to make a judgment about where the breakdown was. I think there's probably room to think both sides have a little bit of blame for that. But I think, at the end of the day, you can't operate a system as big as the government of

Ontario with a broken relationship with your Auditor General. It doesn't work.

Dr. Al Rosen: There's one thing, though, that's important—as I said before, I've spent 15 years with three Auditors General of Canada as a technical adviser: You are, as an Auditor General, entitled to the information. If someone is slow or whatever it happens to be, and that's their reaction, it's a matter of who has the entitlement and who doesn't. I think that has to be added to what Mr. Horgan was saying.

Mr. Doug Downey: Well, the Auditor General testified last week that she was in a meeting, she thought, discussing the pensions, and she came out of that meeting to hear the announcement of how they were going to treat it. It was that simple.

Mr. Gordon Campbell: We heard that too.

Mr. Michael Horgan: She told us that too.

Mr. Gordon Campbell: Without attributing anything, I think the responsibility of the government is to work with the Auditor General. The Auditor General is working for the public and the government's working for the public, but the government really has the task, if there's a disagreement, to keep on trying to fix the disagreement, keep the information flowing, keep the reports flowing, find out the processes you can that can build the bridges to find an agreement. I do believe that's the government's job. You may not get to agreement, but as soon as you say to someone, "Basically, the door isn't open," or "Well, good luck in getting it"—I'm not sure they ever said that exactly, but we heard process issues like that.

That's why you'll see some recommendations here about how the government should include the Auditor General early in the process—not to get approval from the Auditor General, but to include the Auditor General so the government is aware of the Auditor General's perspective when the government makes a decision. That seems to me to be a legitimate way to build a constructive, working, professional relationship.

Mr. Doug Downey: We did hear last week from some of the senior public sector that, because we got the cabinet recommendation, they went to Treasury Board on March 1—

Mrs. Robin Martin: On the fair hydro.

Mr. Doug Downey: On the fair hydro. They went to Treasury Board on March 1 and to cabinet on March 1, and contrary to everything in that report, they announced that they were going ahead anyway on March 2. Did the Auditor General give you any indication she knew that was happening or that she was part of that conversation?

Mr. Gordon Campbell: I don't recall that. I don't recall her telling us she was or she wasn't specifically that March 1, March 2, March 3.

Mr. Doug Downey: It was very, very fast.

Mr. Campbell, you had mentioned—I'm talking pensions for the moment—there was a resolution available. They didn't get it. They didn't get the agreement in writing, for whatever reason. They put together the committee, and then took their 50% anyway. Does it strike you they asked and got the wrong answer, so they decided to

create a body to ask for a different answer? Am I characterizing that properly?

Mr. Gordon Campbell: It's possible that they struck the committee to try and have a constructive relationship with the Auditor General, but it didn't come out that way. They had the committee, the committee said what they did, and they got on with it. That would be my impression. We didn't follow that line of questioning, specifically. But the government got a different answer from the committee than from the Auditor General. In my recollection, it was the Auditor General who pointed out that they didn't have particular expertise in public accounting that way.

Again, for me, if you're trying to find a resolution, you work with the Auditor General to find out who that is who could be on that committee, how can we work together to find this. If you're trying to have a fight, then you say, "Well, I don't care about the Auditor General. I have a committee." From my perspective, that's how I would have read that. They would have been better off, I think, to try and find an answer—and here's the thing: They could have found an answer. All they needed was the letter to say, "This is how we're going to deal with this, in terms of the pension funds." I don't want to attribute anything to anyone one way or another. It's not the most productive and constructive way to do it and it's not the way you build a relationship with the Auditor General.

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The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Sorry, Mr. Campbell, I just want to be clear if I heard that correctly. Did you say that the way you're characterizing it, then, is that the government wanted to have a fight with the Auditor General?

Mr. Gordon Campbell: Well, I think the way you end up with a fight is if you say to the Auditor General, "We'll have our own committee, thanks. They've given this answer, that's the answer we're going with," and ignore the Auditor General. I think the way to include is you include the Auditor General in the creation of the committee and see if you can find an answer.

Mr. Ross Romano: But as I understood what you were saying, based on the course of action they took it seems like you're saying it's clear that they wanted to have a fight with the Auditor General.

Mr. Gordon Campbell: It seems to me that they wanted to get a different answer than the Auditor General was willing to give them, yes.

Mr. Ross Romano: All right. Okay, thank you.

Dr. Al Rosen: Was there testimony from the Auditor General about consulting other Auditors General across the country?

Mrs. Robin Martin: Yes.

Dr. Al Rosen: Okay. So then doesn't that tell you what was happening was a sort of a lining up of checking your facts and processes and everything else? I would assume, then, that this had been going on for awhile—at least through the checking period.

Mr. Doug Downey: Yes, we're trying to nail down the things that we do know for sure.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: Sorry, Mr. Chair.

Mr. Horgan talked about this being such a unique relationship between the Wynne government and the Auditor General, but I just don't want to miss out on Mr. Campbell's impressions. Having gone through your own experience, is this a unique breakdown in relationship or have you seen it elsewhere with Auditors General and governments?

Mr. Gordon Campbell: I don't know enough about other provinces or whatever. The Auditor General wasn't always cheering what we were doing either when I was Premier, but we never had a breakdown in communication that I'm aware of.

Mr. Doug Downey: That's really the question.

Mr. Gordon Campbell: Right, so I think there was a chasm. It wasn't just a sort of gap; there was a chasm there. Frankly, I think that one of the benefits of what we've been doing is to say, "Get together. Talk this thing through. You guys can get there if you would just work at it, but you've got to work at it."

I think that what Mike was saying is really important: There are lots of times when Auditors General and governments disagree. You still have to work it through. You have to try to work it through, because I'm pretty confident of this: If the public has to choose between the government and the Auditor General, it's pretty much the Auditor General, unless you can show how you tried to make this thing work for everybody.

Dr. Al Rosen: Can you make sure that you've drawn a separation between public accounts and value-for-money audits? This is a totally different atmosphere there.

Mr. Doug Downey: Right, yes, that's a fair point.

The report recommends that the Auditor General receive advance notification and is asked for comment when a ministry or an agency consolidated. You mentioned this before, so why this in particular? It seems kind of an obvious point to me, but you felt the need to say it right on page 1.

Mr. Gordon Campbell: I have an old expression, which is: It goes without saying, but it goes a lot better with saying—and I think that goes a lot better with saying. Include, include, include. The decision is the government's, but include the Auditor General and you'll get the better decisions. Know what you're getting into before you get into it.

Mr. Doug Downey: Fair enough.

Dr. Rosen, a quick question on rate-regulated entities. To be a rate-regulated entity, you need two components, if I understand it correctly: you need a future benefit to the current individual, and you need that entity to be able to independently set rates. Is that fair?

Dr. Al Rosen: Well, the independence is either there or it isn't, and I didn't think it was there.

Mr. Doug Downey: And so any discussion that the Wynne government had about, "Well, we can use this accounting standard," it wasn't a rate-regulated activity in any event.

Dr. Al Rosen: That's correct.

Mr. Doug Downey: So we can just dismiss that entire line of accounting, because it doesn't qualify to be in that box.

Dr. Al Rosen: Yes, well, it's even a stretch to include it within the public sector, because you have to go through these various routes.

This is what I meant at the beginning: When we started to add it up, there were four or five different methods of accounting that were selected at different times over the past several years.

Mr. Doug Downey: So the only reason that we can say that they followed the rules is because they passed legislation saying what the rules were.

Dr. Al Rosen: Yes, after consultation with, perhaps, non-independent people.

Mr. Doug Downey: Well, whether they consulted or not, they made up their own rules and then said, "We followed the rules," because they made up their own.

Dr. Al Rosen: Yes.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Sorry, Dr. Rosen again: When you were asked the question about whether they got around it by creating the Fair Hydro Plan Act, I believe your answer was, "Well, that's because they consulted with people who, essentially"—and these are my words, not yours—were going to give them the opinion they wanted.

Dr. Al Rosen: That's always a possibility in business.

Mr. Ross Romano: All right. Given your characterization, I gather you believe that that was what occurred.

Dr. Al Rosen: It would be something I would be very suspicious about. If we had more time and the mandate permitted it, it would have been a path I would have spent some effort on.

Mr. Ross Romano: So it's fair to say from your answer, then, that you're very suspicious that they hired experts to give them the answers they wanted so that they could come up with this accounting method.

Dr. Al Rosen: Yes. I see it all the time; let's put it that way.

Mr. Ross Romano: Okay. Thank you, Dr. Rosen.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: I just wanted to touch on the effect on Ontario's credit rating because of the monkeying around with the accounting.

Dr. Al Rosen: There wasn't much.

Mr. Doug Downey: Not a huge effect?

Dr. Al Rosen: We asked a lot of people about that: "When is the credit rating going to reflect it?" The answers we got back were that, "It wasn't anything monstrous," as far as I remember.

Mr. Michael Horgan: Yes. We asked this very question to senior officials. Their view was that the credit rating agencies had already built in these numbers—their understanding of the thing—so that when it actually happened, it didn't change the credit rating because they had already built it in.

Mr. Doug Downey: They weren't fooling them.

Mr. Michael Horgan: Yes. They were accepting the Auditor General's numbers, and that was built in to their assessment from the get-go. It didn't change their assessment because it was already built in.

Dr. Al Rosen: Yes, except we didn't go back and check their grade over several years.

Mr. Michael Horgan: Yes. Correct.

Dr. Al Rosen: We were just going on their testimony.

Mr. Gordon Campbell: But it's fair to say that now the credit rating agencies are paying a lot more attention than they were beforehand—a lot more, I think.

Mr. Doug Downey: The credit rating agencies, if they had to pick a side—and they did; they picked the Auditor General's side on what was going on with the books in terms of the credit rating—

Interjections.

Mr. Doug Downey: Well, they incorporated the numbers into—

Mr. Michael Horgan: Yes. All I can say is, that's what senior officials were speculating. I don't know factually whether that's true or not.

Mr. Gordon Campbell: My experience with credit rating agencies says that they would say to you, "We don't care. We're going to look at the numbers. That's what we're doing. We're not going to attribute anything one way or another, politically. We're going to do this. Do whatever you're going to do, and we'll let you know where you stand." And what they let you know where you stood after that was, "We're watching you more carefully."

Mr. Doug Downey: "You're on notice." Fair enough.

Dr. Al Rosen: But that might change in future years as you start to add them.

Mr. Doug Downey: That was some of the warning that the cabinet recommendation flagged, saying that this could happen. So we'll have to wait and see if it manifests itself.

Mr. Gordon Campbell: Yes.

Mr. Doug Downey: The Wynne government spent about \$2 million in expenses to bring in the outside experts. Dr. Rosen, you're saying that they brought in people to tell them what they wanted to hear anyway.

Dr. Al Rosen: I said that I would be suspicious. That's what—

Mr. Doug Downey: You would be suspicious.

Dr. Al Rosen: When you get the magical answer and it agrees with your bias, that always bothers me.

Mr. Doug Downey: Well, in the cabinet document we received, they didn't actually agree with them. They told them not to do it. Well, I shouldn't say it that way. They highlighted the high risk of taking a course of action.

Dr. Al Rosen: "Don't do it this way; do it another way."

Mr. Doug Downey: Well, we haven't seen the whole opinion, so I don't know. But the cabinet document highlighted risks—high risks—all the way through.

Mr. Gordon Campbell: I would say that there was no question from my perspective that the public service would have identified high risks.

Mr. Doug Downey: Actually, it came from former Supreme Court Justice Ian Binnie as well—and others.

Mr. Gordon Campbell: That could well be. I don't know about Ian, but I know the public service.

Dr. Al Rosen: Which justice?

Mr. Doug Downey: Justice Ian Binnie.

Mr. Ross Romano: Retired.

Mr. Doug Downey: Retired. He wrote an opinion.

The Chair (Mr. Prabmeet Singh Sarkaria): Two minutes.

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Mr. Doug Downey: Thank you. All of this accounting trickery led to the qualified opinion, and you've talked about that. Are you satisfied with the revised accounting opinion, signing off on it, in terms of transparency and accountability? Does it come after your report?

Mr. Gordon Campbell: I am. I can't speak for the others, but I am.

Mr. Michael Horgan: Yes, I mean—

Dr. Al Rosen: I haven't read it, so I can't speak.

Mr. Doug Downey: Fair enough.

Mr. Michael Horgan: I believe the Auditor General has signed off on it.

Interjection.

Mr. Gordon Campbell: What's that?

Ms. Sandy Shaw: Sorry, nothing. We're watching the TV over your head.

Mr. Doug Downey: All right, thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Downey.

We'll now turn it over to the opposition for 20 minutes. Ms. Shaw.

Ms. Sandy Shaw: Thank you, Mr. Chair. On page 31 of the report, you talk about some of the significant challenges that Ontario faces in the year ahead that will impact economic growth and the province's revenues and expenses. One of those significant challenges that you identify—or you identified it as a significant risk—is climate change. I'm just wondering if any of you would like to quantify how you see that as a significant risk going forward for the government.

The Chair (Mr. Prabmeet Singh Sarkaria): I would just caution on that in the sense that, within the mandate of the report, climate change I do see is there—

Interjection.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, I see it as a recommendation. But we are going to keep it to what their mandate states as—transparency in preparing budgets, public accounts and other financial reports, as well as decision-making policy objectives of the previous government, as well.

Ms. Sandy Shaw: Well, it is in the report identified as a "significant risk," so I don't see how we couldn't be discussing this. It is within the mandate. It says, "In the near term ... these are just two of the significant risks...." They say, "the rapid pace of globalization ... tax reforms ... cyber security ... and climate change." So I don't see, in terms of the mandate of the government, how we wouldn't discuss what is actually put in the report.

The Chair (Mr. Prabmeet Singh Sarkaria): In terms of reviewing it, as a caution—that we keep it within the aspects of the report, in the sense of the practices, the decision-making policy objectives of the previous government, whether it's budgets, public accounts and other financial reports tied to the recommendations—in that sense is what I'm just cautioning on for the questioning and to the members when answering.

Ms. Sandy Shaw: Okay, thank you. I appreciate it.

How would you like to quantify that as a risk going forward, for the province?

Mr. Gordon Campbell: The thrust of that particular section of the report is there's a whole number of things that we may have to deal with as we go forward. Climate change is one of them. Climate change could be reflected in increased forest fire seasons, increased flooding, unusual weather events—

Mr. Michael Horgan: Tornadoes in Ottawa.

Ms. Sandy Shaw: Exactly.

Mr. Gordon Campbell: Pardon me?

Ms. Sandy Shaw: Tornadoes in Ottawa.

Mr. Gordon Campbell: Tornadoes in Ottawa.

What this recommendation is trying to say is we live in a pretty turbulent, pretty uncertain time. This is not the 1950s. There is a whole series of things outside of Ontario's ambit that are going to have an impact on Ontario, and climate change is potentially one of them, and so are cyber security threats.

My bet is it will be a significant cost that will come after the first attack that really resonates with the public. What we're trying to say is, "Get ahead of that; think ahead of that" in terms of thinking for the long term.

Tax reforms: We don't know what the impacts are except it looks like investment is leaving, in lots of ways. It's going out of Ontario and into other jurisdictions, notably the United States. Those are things that are coming up against us.

Another big issue: I can't quantify it today and say it's this many, but technological change is going to have a huge impact on jobs, which has a big impact on our social infrastructure. Those are things that we're just saying, "These are outside of your control, but you should be thinking about it as you set a budget," so when the unknown happens, you might have some resources available to deal with it.

Ms. Sandy Shaw: Okay. Thank you.

Dr. Al Rosen: You could throw in a bunch of others, like money laundering. I was never happy with the answer that we got—same with control of the stock markets. There's no minister of white-collar crime in Canada as far as I'm concerned, so the list could have been much longer.

Ms. Sandy Shaw: Okay. Thank you.

Also, Mr. Campbell, I know that you introduced—it was a pioneering, really, carbon tax that you introduced and that still exists today in BC. My guess would be that, if we look at the deficit and revenue that you've reviewed here, outside of the impact of climate change—can you just comment on your experience with the carbon tax in

your province and how that is reflected in the revenue and deficit adjustments that have been made in this report?

The Chair (Mr. Prabmeet Singh Sarkaria): I don't think it's appropriate to comment on a policy of carbon tax with regard to this report. I don't see that being within the mandate. So I would caution—

Ms. Sandy Shaw: Okay, well—

Ms. Catherine Fife: It's a revenue stream.

Ms. Sandy Shaw: Because it's a revenue stream, I wanted to actually know, when we look at the proposed changes to the revenue outlook that are there—my question simply was, was the existing climate change plan of the government adjusted in any way in those proposed revisions which are on page 25 of the report?

Mr. Gordon Campbell: I don't believe we did adjust that, no. Not in this report.

Ms. Sandy Shaw: Okay. So—do you have something?

Mr. John Vanthof: Sure. Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof.

Mr. John Vanthof: Thank you, Chair.

So, in effect, the deficit could actually be larger. That could be changed, if in the future—I'm going to go in a totally different direction in a second. As you said, you had the benefit of seeing things that the Auditor General didn't see, so now we have the benefit of seeing things that you didn't see. So, in effect, the deficit could be larger. That's as far as I'm going to go on the carbon tax, Chair.

Mr. Horgan, you made a comment and I want to follow up on it a little bit. We've talked a lot about the Auditor General today, and that's a good thing. Basically, you knew something about this issue based on just newspaper clippings before you—right. I take it you would be interested in the goings on in Ontario. Obviously, given your history with finance in Canada and with Auditors General in the past, I would assume you've taken interest in Auditors General's reports as well—at least passingly.

Mr. Michael Horgan: Passingly.

Mr. John Vanthof: Okay. We've talked a lot about the Auditor General and the Auditor General's office, and in your opinion—obviously, by the way I read the report, it looks like you, in large part, agree with her findings. Was there anything—reading her office's reports, were you satisfied with the work that the Auditor General of Ontario did in this? Because the deficit and the debt didn't fall out of the sky. She was warning for a while about the pension issue. She warned about the Fair Hydro Plan. I'll ask this of all the panellists: Do you think the Auditor General, in this case, did a good job of warning the government and issuing reports to warn the public as well?

Mr. Michael Horgan: I think the bottom line is yes. It's certainly true on the Fair Hydro Plan; I don't think there's any question on that. On the pension side, we heard from a number of people; sometimes on these issues, reasonable people can actually disagree. But having said that, the Auditor General had a very strong view, and it was fully in her prerogative to make that issue known to

the public, and I think she was fair in terms of the expression of her point of view on that issue. So from that point of view, yes, I think—

Mr. John Vanthof: Okay.

Mr. Gordon Campbell: I agree. I think the Auditor General did the Auditor General's job.

Mr. John Vanthof: Okay. I would agree. I distinctly remember, when the budget came out, I was the finance critic and myself and the current finance minister were on—he's no longer here—Steve Paikin's show and we both identified that the deficit the government was predicting was—I believe we used the term “imaginary.” That was largely based, at that time, on the Auditor General's work. The Auditor General did a good job, in my opinion, of waving the flag. I think it would be easy enough to say, certainly on behalf of our side, that if it wasn't for the Auditor General in this case, we might not be sitting here on this issue.

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Given that the Auditor General, certainly in your opinion and in our opinion, has done her job, if the Auditor General raised a bit of a flag again in her testimony, saying that she needed more resources, would you take that request seriously?

Mr. Gordon Campbell: It's entirely up to you.

Mr. John Vanthof: Okay.

Mr. Gordon Campbell: That is one of the things that I think is clear. Government has its responsibilities and it will be accountable for those choices. I'm sure there's no end of things that an Auditor General can do and can cover etc., and that's critical.

One of the things we were trying to say at the end of this report is that as you look forward, remember that the world is different in lots of ways. You may want to give the Auditor General more or you may want to give someone else less. We haven't articulated or evaluated what the emergent potential costs are for First Nations issues. We haven't done that for environmental remediation. We haven't done that for issues that come along when you're negotiating with your public sector unions. We're in no position to do any of that. The government will have to do that and the critical part is, will they present the books to the public so the public knows what decisions they've made? The Auditor General is the check on that, to say, “Yes, I see that. Okay, fine.” Right? Or, “I'm worried about this,” and the government brings them in and they say, “Okay. How can we resolve that?”

Mr. John Vanthof: But just on that note, you brought up the issue of cyber security. If the Auditor General brought up the issue that her office was concerned about that and perhaps might need more resources to look into that, would you take that request—I'm not asking if you would approve it; but would you—

Mr. Gordon Campbell: I think government should be doing that. The challenge that you face is, when government is running big deficits, it's hard to find additional money to do what you need to do that's new. The question I think is worth asking is, what do we not have to do that's old so that we can do the stuff that's new? Those are the

sorts of discussions that take place in the Legislature and different people may have different perspectives on that.

There's no question that, if you look around the world today, cyber security is a critically important issue. It's just about always more expensive than the salespeople tell you it's going to be and you've got a lot of work to do—or not you; we've got lots of work to do on that.

Mr. John Vanthof: Thank you very much for that answer. The reason that I'm asking these questions is because—and you alluded to it earlier and, respectfully, as a past Premier—governments, when they're no longer new, see the Auditor General and her reports sometimes more as a challenge than as helpful advice. I think now that we are in a period of change, we've identified issues with the previous government and now would be a good time to actually look at what the Auditor General needs.

Mr. Gordon Campbell: Sure.

Mr. John Vanthof: I don't know if I'm articulating this correctly, but—now everybody is a big fan of the Auditor General. I'm not sure the government is going to be a big fan two years from now. That's why we should look at—if we were government, I'm not sure we would be a big fan. I'm not trying to be partisan here. I'm trying to make sure that the Auditor General has the tools that she needs. I'm done.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife.

Ms. Catherine Fife: The Auditor General has actually given some recommendations to the committee around changes that she would like to see, including the way public assets are recorded as sales and having greater transparency around that in a go-forward position. We actually haven't received that, so I just want to make sure that research follows up with the Auditor General with the specific written recommendations because it will inform this committee's work, I think.

I just want to go back. You obviously did an extensive report. I think the recommendations will guide our work going forward. You met with a lot of people and a lot of groups. There are some people that you didn't meet with. It was alluded to earlier that the Pension Asset Expert Advisory Panel, which was brought in to counter the Auditor General's opinion and position—did you have a chance to meet with that so-called expert panel on pensions?

Mr. Gordon Campbell: No, we didn't.

Ms. Catherine Fife: Was there a reason why you didn't meet with them?

Mr. Gordon Campbell: Well, the government had articulated their position and the Auditor General had articulated her position, and so we based it on that. We didn't want to become the accounting referee.

Ms. Catherine Fife: So you had enough information. You had their report and you had the Auditor General's, as well.

Was there any time that you thought you needed additional information on accounting practices? Or do you feel that you, as a commission, had all the information that you needed to determine what happened with the hydro plan and, of course, the pension treatments?

Dr. Al Rosen: We had plenty of material.

Mr. Michael Horgan: We had too much.

Ms. Catherine Fife: You had too much material?

Mr. Gordon Campbell: And direct meetings with the people who were involved.

Ms. Catherine Fife: I don't know if anybody covered this at the beginning, because I was doing a statement, but how were you approached by this government to do this work? Would you mind sharing that with the committee? No one has ever actually explained it to us.

Dr. Al Rosen: I have no idea. I got a phone call one day—sort of an “Are you an able person?” type of thing. I didn't hear anything for a couple of weeks, and then, suddenly, “Your name is going to be put forward tomorrow at a press conference. Thank you. Goodbye.”

Ms. Catherine Fife: That was it? Is that how you get all your jobs?

Mr. Gordon Campbell: I was asked if I would be interested in doing something to help the government establish what the finances were of the last government. I said, “Sure.”

Ms. Catherine Fife: So you were motivated to do that?

Mr. Gordon Campbell: I was motivated to do that. I started my 2018 off, saying, “Jeez, if I could just do the Ontario finance”—

Laughter.

Mr. Gordon Campbell: But seriously, I think it's important. My response was, “I'm glad to try to help if you think I can be helpful.” That's it.

Ms. Catherine Fife: Well, thank you.

Mr. Michael Horgan: Yes, pretty much the same thing: I was approached by a member of the government's transition team. They indicated that they were setting up this thing and my name had come up, and they asked me if I would be willing to serve. Then I had a follow-up conversation with the cabinet secretary in Ontario, who also encouraged me to agree to do this.

Ms. Catherine Fife: Who did you report to, as a committee?

Mr. Michael Horgan: The Minister of Finance and the Attorney General.

Mr. Gordon Campbell: Just to put me in focus for you: I've never met the Premier. I met the Minister of Finance when I came to start doing this job with the commission. Then, we met the Minister of Finance one last time when we submitted the report. We had no contact with the political arm of government at all.

Ms. Catherine Fife: The mandate that you were given at the very beginning—that was just one solid mandate. Did you try to negotiate that at all as your investigation—

Mr. Gordon Campbell: No. It was the order in council.

Ms. Catherine Fife: I was wondering because Mr. Rosen has said that if he'd had a little more time, he could find some more issues.

Mr. Gordon Campbell: What you're going to find is, after Al has worked for a year, he'll still be able to find more for another year.

Ms. Catherine Fife: Are there any other recommendations that—you submitted this report some time. You were paid in full for your work. Since this report has been tabled, have you had any other opportunities to give further consideration to what you might have liked to have put in the report?

Dr. Al Rosen: Yes, I have thought about it.

Ms. Catherine Fife: Do you want to share some of what you were thinking about?

Dr. Al Rosen: I think I mentioned before that I would have to—maybe it wasn't on the record—check with whoever I wrote to to see whether it's private or not.

The Chair (Mr. Prabmeet Singh Sarkaria): Just a minute and 30 seconds.

Dr. Al Rosen: Can I just sneak in one more question?

Ms. Catherine Fife: Yes.

Dr. Al Rosen: In follow-up on that one, if we get various people saying, "Here's how you can save money in the government"—I get a lot of these types of things—who do I send it to?

Ms. Catherine Fife: I think you should send it to the Chair.

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The Chair (Mr. Prabmeet Singh Sarkaria): Share it with the Clerk.

Ms. Catherine Fife: Can I just ask you to finish and then we'll follow up on that administrative issue. Anything that you'd like to add?

Mr. Gordon Campbell: I'd just like to say that, actually, I think it's a good report.

Ms. Catherine Fife: You're unbiased, I know.

Mr. Gordon Campbell: I'm totally unbiased and I've never said something like that before. I'm just working on my messaging now, but I think we did not try to go out of our way to be harsh or judgmental. We tried to say, "This is what has taken place, and this is what our recommendations would be." It's entirely up to the government what they either like or don't like about it.

Ms. Catherine Fife: Thank you. Mr. Horgan?

Mr. Michael Horgan: I haven't really done much reflection on the report. I'm trying to get on with my life now, but I've talked to people about the report. People have commented on it and I've had some discussions about it, but I agree with Gordon. I think we just tried to be very fair and straightforward in terms of the report and just as factual as possible, and tried to provide some kind of common sense recommendations.

Ms. Catherine Fife: Okay. Thank you for your work.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. Now we'll turn it over to the government side for 20 minutes, but just before I do that, Mr. Rosen, the Clerk will inform you of the details of who to send the letter to.

Mr. Romano for 20 minutes.

Mr. Ross Romano: This isn't part of—just a point of order, but I believe that was just addressed. I'm not sure if we want to just have documents going to the Chair without first verifying the procedures, so I think, Madam Clerk, you're already identifying that, and then I don't need to go on. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: Thank you, Chair. To start off with, I'll ask you to forgive me for taking a politician's lens to this. We're a committee of all politicians here. I would say we've all come off of a heavy year of campaigning before forming government in June, and I must say that not once did someone say to me at the door, "Why are they using this type of accounting?" I don't think I ever heard the word "accounting" come up at the door. But what does come up frequently is the question of, "What's the long-term consequence of this for our province? What's the long-term consequence of some of these decisions the previous government has made? What does this mean for my children?"

Mr. Campbell, you said that the public needs to understand the short- and long-term obligations of the province. That's one of the reasons why we're here. That's one of the reasons why we're having this discussion about accounting. So I'm going to ask the three of you to be politicians for a second—this may be more familiar to some of you than others.

I'm going to ask each of you, and we're going to go through a few questions. In one sentence, can you describe for me—and we'll start with Mr. Horgan. Looking at the accounting of the net pension assets, in one sentence, what are the short-term consequences to the taxpayer?

Mr. Michael Horgan: Well, I think it's the fact that there's an underestimation of the deficit by \$2.7 billion.

Ms. Lindsey Park: And how about the long term?

Mr. Michael Horgan: Well, I guess in the long term, we've kind of said the starting point is around \$15 billion in deficit. The issue is what the government and the Legislature do about addressing that issue. That's a fairly large deficit for a province like Ontario and, as we said earlier, there's no question that we'll be in another recession, so I don't think we're very well prepared, with a \$15-billion deficit, to go into another recession. We're in a worse situation now than we were in 2008 and 2009. That's a problem.

Mr. Ross Romano: Sorry, if I could just clarify that: Did you just say that you believe today we are in a far worse position than we were in the recession of 2008 and 2009 because of this \$15-billion deficit?

Mr. Michael Horgan: Well, the deficit wasn't \$15 billion in 2008-09, so just from a straightforward—providing some stimulus in the situation of a recession, the starting point is a lot worse now than it was in 2008-09—not only for Ontario; that's true, generally speaking, across Canada. But—

Mr. Ross Romano: So, yes.

Mr. Michael Horgan:—Ontario is 40% of the Canadian economy, so it's a problem, from my point of view.

Mr. Ross Romano: So, yes; okay. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: I'll jump to Mr. Campbell now. Again, we're talking just about the net pension assets and accounting of that right now. What are the short-term

consequences to the Ontario taxpayer of that accounting? One sentence.

Mr. Gordon Campbell: The short-term consequences in terms of the pension assets are not very much. The long-term consequences are significant. The reason I say that they're not very much is that they've been taken into consideration already. But I think, as you add it to the deficit, people start to see a different world. You're talking about how people can see. We'd like them to see where they really are. Where they really are is at least—and I underline that; at least—\$15 billion as a deficit for 2017-18. Who knows what exactly it will be in 2018-19? You have an opportunity to make some choices with regard to that, but you can't build a future on deficits.

Operational deficits—when you're spending way more than you're taking in, you're spending away your future, whether people like to see that or not. If you just talk generationally—the Fair Hydro Plan calls for a 9% per annum increase in rates starting in 2021, as long as all these things hold. If they don't hold, they potentially go up. That's a cost that we're visiting on, frankly, a whole new group of people. The beneficiaries are living now and taking advantage. The future beneficiaries are paying. We're paying for it through our kids, saying, “We don't care about you, really. It's too tough.”

These are tough choices you're going to face as a government, I think, and—

Ms. Lindsey Park: And that's—

Mr. Gordon Campbell: —we weren't trying to make choices about that. We were just trying to say: Reflect what's really taking place with the pensions, reflect what's really taking place with hydro, and look at what your economy is really doing today and where you can generate additional investment. You've got to really think of those things. That's going to be very, very difficult. There's an old expression: You can't get out of a hole until you stop digging. They used a backhoe in 2017-18.

Mr. Ross Romano: Sorry, you said the Liberals used a backhoe?

Mr. Gordon Campbell: I said “they”—the government of the day.

Mr. Ross Romano: Thank you. The government of the day used a backhoe to keep on digging. All right. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: Dr. Rosen, it's your turn again. We're just talking about the net pension assets. Give me one sentence to describe the short-term consequence to the Ontario taxpayer.

Dr. Al Rosen: I do not believe, at this point, and have not seen the evidence, to indicate that there is an asset surplus. Having been in too many cases for too many years and having looked at outrageous exaggerations, I want to see the evidence before I take the next step. So far, I don't think anybody has done that, outside of one public accounting firm. I've been involved in so many cases for and against these people over the years that I don't have a lot of trust in them.

Ms. Lindsey Park: If you want to tell the committee, who would you be talking about when you reference “them,” the people that you've been involved in?

Dr. Al Rosen: The public accounting firms?

Ms. Lindsey Park: Yes.

Dr. Al Rosen: It's mainly the big four public accounting firms. This is who has been attacked in England quite seriously and viciously, and it has to come to Canada. We have to revise the companies acts and securities acts in Ontario and in the rest of Canada tomorrow, because they're inoperable. There's too much self-serving going on through the Canadian structure as we have it now. You can't self-regulate forever. We've relied on that, as a country, for far too long. It's proven not to work. If you don't believe me, come to my office and I'll take you through my file room. I think you'll be convinced at the end of the tour.

Ms. Lindsey Park: Thank you. That's a very generous offer.

Just to close off, just in one sentence, what are the long-term consequences of the accounting of the net pension assets for the Ontario taxpayer, for the next generation?

Dr. Al Rosen: I think you've got a problem of, once this stuff blows up, especially the marijuana and so on, you're going to have less US and European investment in Ontario, less jobs, and so the trail goes.

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Ms. Lindsey Park: Thank you for that.

Now we're going to jump from the pensions to the Fair Hydro Plan, so I'll go back to Mr. Horgan again. You're talking to someone who is at the door, someone who has no accounting background, someone who has not read your report.

Mr. Gordon Campbell: A typical Canadian.

Ms. Lindsey Park: The typical Canadian—those aren't my words.

Mr. Horgan, in one sentence, what were the short-term consequences of the Fair Hydro Plan and the global adjustment refinancing for the Ontario taxpayer?

Mr. Michael Horgan: Well, again, it's an under-estimation of what the true level of the deficit of Ontario is, so that's an immediate consequence. You've put into effect a reduction in electricity prices, which seems to be very popular in Ontario and which all parties seemed to endorse in their last election campaigns, but the cost of that over the long term is an estimate from the department of energy here in Ontario that implementing the plan would cause electricity prices to go up by 9% per annum starting in 2021 or 2022. Is that realistic? I don't know. That doesn't sound very attractive to the Ontario ratepayer.

Ms. Lindsey Park: I'm just conscious of time, so I'm going to jump to Mr. Campbell: one sentence on the short-term consequences and one sentence on the long-term consequences.

Mr. Gordon Campbell: Well, the short-term consequences of what we've recommended are that there is \$2.4 billion more on the deficit. The long-term consequences are frankly hard to anticipate because I have no idea what the government's energy or electricity policy is going to

be. If it's to reduce rates, then the cost is going to be more. One of the things that happens is that rates are very visible. I don't think rates are going to go up 9% per annum starting in 2021. That would be my bet. They might.

There are some real challenges with energy, and that's not, by the way, just in Ontario. People want to get their energy for free, and you can't keep up with energy demand if you deliver it to them for free.

Ms. Lindsey Park: Dr. Rosen, your turn: one sentence on the—

Dr. Al Rosen: My one word is to tell your children and grandchildren to move.

Ms. Lindsey Park: I don't think voters in Durham are going to like me saying that to them.

Dr. Al Rosen: Well, then they had better start clueing into what's happening in the country. We've written a couple of books—this one is *Easy Prey Investors*; the other one is called *Swindlers*—and people don't pay attention. I give a lot of talks. You can look around—because I was a professor for a long time, you can read the audiences fairly well. They listen until you stop at the last sentence, and then it vanishes through their head.

The actions of the stock exchange and so on are showing us that Canadians are not taking the warnings of the Nortels and the business income trusts and the Sino-Forests and the Castor Holdings, and on and on. All of those and many more, I've testified—and you keep on hoping that for the next one, they'll clue in. It doesn't happen.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano?

Mr. Ross Romano: Sorry, Dr. Rosen. I tend to get a bit repetitive, but I think, to your point, that you're concerned about the future generations. Fair? Yes or no?

Dr. Al Rosen: Yes.

Mr. Ross Romano: Your answer to the last question Ms. Park just asked you with respect to what the long-term consequences, essentially, of the Fair Hydro Plan act are—your recommendation would be, you're saying, that people should move. That is something that you clearly don't say lightly. Is that fair?

Dr. Al Rosen: It's not likely, but unless you cease with that particular operation, take your hit now and then start to work with the other expenditures around the province, then it's a serious problem. And you have to have the support of your voters.

Mr. Ross Romano: Right. When we talked earlier and words like “fraud” were used, words of that nature, for you to suggest that it's so bad right now that the status of our debt/deficit and what was done with this Fair Hydro Plan act, this scheme, this shell game, this backwards accounting that was done—it is so bad that you're saying that people need to be that aware of the consequences of this. To get to that point—and I know I'm dancing here—is it fair to say you believe that this is as close to a fraud as it could have been?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Mr. Romano. I'm just going to have to ask you to rephrase

your question without using the word “fraud,” for parliamentary language.

Mr. Ross Romano: Do you think that the people of Ontario were duped?

Dr. Al Rosen: Yes—

Ms. Sandy Shaw: Try again.

Mr. Ross Romano: Do you think that the people of Ontario were lied to by the former government?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano, once again, “lied to” is—

Mr. Ross Romano: I'd invite you to answer the question.

The Chair (Mr. Prabmeet Singh Sarkaria): No. I ask that you rephrase your question, Mr. Romano.

Dr. Al Rosen: Deceived? Yes.

Mr. Ross Romano: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Just another caution, once again: parliamentary language, please. “Duped,” “lied to” and “fraud” are unacceptable.

Ms. Park.

Ms. Lindsey Park: Mr. Campbell, would you have considered implementing something like the Fair Hydro Plan when you were Premier of British Columbia?

Mr. Gordon Campbell: No.

Ms. Lindsey Park: I guessed that was the answer, but I wanted to check. How would you have reacted if your Minister of Energy proposed something like the Fair Hydro Plan?

Mr. Gordon Campbell: That's too hypothetical for me to answer. I can't answer that. Sorry.

Ms. Lindsey Park: This is a bit of a housekeeping question. While your time today with us will soon come to an end, the committee has ongoing work. I just wanted to see, based on the detailed review you've done, the research the three of you have undertaken, is there any direction or information that the commission would recommend we further investigate?

Dr. Al Rosen: Yes, and I think that was asked before.

Ms. Lindsey Park: Can you be specific on what you have in mind about a direction we should take?

Dr. Al Rosen: I made a list. At the end of the project, I was in Europe for two and a half weeks. I came back and I was still annoyed that there were things that had to be corrected. This comes from having been a professor too long, I suppose; you're just not going to let it sit there. So I wrote out 10 or so pages of what I thought had to be cleaned up. I sent them to one person on a private basis, and I would have to get permission to release that, or I would have to turn around and write a new document. But there are things that are easy to fix. There are others that are complex, and you'd have to consult other people in the country. There are others that are probably not going to be fixed. So I was trying to categorize these.

Ms. Lindsey Park: Well, we welcome any of your recommendations after today. I understand that you'll have to check with the person you disclosed it to.

Is there anyone you think we should talk to that you didn't have the chance to talk to in your investigation?

The Chair (Mr. Prabmeet Singh Sarkaria): Just under two minutes.

Dr. Al Rosen: I really wish, related to this but not totally, that I could find out who in Ontario is the minister of white-collar crime, and will act and will read the material we've assembled over the years because I think it's going to affect the budget of Ontario and so on.

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The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Dr. Rosen, are you suggesting by that answer that either somehow dealings with the pensions and/or the Fair Hydro Plan was in fact a white-collar crime?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, Mr. Romano. I'm going to have to ask you to rephrase that question. It's imputing motive.

Mr. Ross Romano: Perhaps I'll ask you to expand on that.

Dr. Al Rosen: Sorry? That it has?

Mr. Ross Romano: Perhaps you could just expand on your last answer.

Dr. Al Rosen: We've seen enough major financial collapses in Ontario and across Canada. Even in British Columbia there have been some beauties. One of the reasons is that Canada, years ago, adopted this self-regulation concept. You can see, aside from the Auditor General here, there is an assumption of self-regulation and mostly those are not working.

We have lots of evidence of these failures. You can't deny that Nortel happened. You can't deny that business income trusts happened. You can't deny Sino-Forest happened. Go down the list: Poseidon, Castor Holdings. You're talking huge failures. What has been the action out of the provinces and federally? Not enough to curtail this.

Mr. Ross Romano: So would you suggest that the Fair Hydro Plan Act is one of those—

The Chair (Mr. Prabmeet Singh Sarkaria): I'm sorry. I'm going to have to cut you off there, Mr. Romano, due to time. We're over our allotted time.

Mr. Campbell, I believe you had noted to say something, but I'm going to have to ask you to just hold the comment until we come back to the same line of questioning there, just in the interests of the timing per side.

Now I will switch it over to the opposition for 20 minutes. Mr. Vanthof. Thank you.

Mr. John Vanthof: Thank you. I believe you have to leave soon, Mr. Campbell?

Mr. Gordon Campbell: I do.

Mr. John Vanthof: So I'm going to ask you one question.

Mr. Gordon Campbell: If you let me, I do, yes.

Mr. John Vanthof: I'm going to ask you one short question. First, thank you for your service and thank you for being here.

Mr. Gordon Campbell: Thank you.

Mr. John Vanthof: Ms. Park asked if you would have implemented the Fair Hydro Plan as Premier and you

replied no. Would you cancel your carbon tax if you were Premier today?

Mr. Gordon Campbell: No.

Mr. John Vanthof: Thank you.

Mr. Gordon Campbell: Can I just say one thing, Mr. Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, Mr. Campbell.

Mr. Gordon Campbell: I think the one thing you have to do is not try to boil the ocean. If you try to boil the ocean, you're not going to get very far. With all due respect, this is the ocean. If you try and get in here page by page, you've got the ocean. So you've got to get yourself at a high enough level that you can actually make some changes here, if you want to make the changes you're talking about. That's all I wanted to say, Chair.

Ms. Sandy Shaw: I thought you were talking about climate change when you said "boil the ocean."

Mr. Gordon Campbell: You have to make some climate changes here. Right.

Mr. John Vanthof: I'd just like from Dr. Rosen some—when you're talking about a minister and white-collar crime, are you speaking specifically within the government or actually within the financial sector?

Dr. Al Rosen: I'm talking about the country.

Mr. John Vanthof: You've said several times that you don't believe that self-regulation works. Is that specifically in the financial sector?

Dr. Al Rosen: That's where I have the most evidence, yes. There's tons of evidence, but have I gathered it recently in a government setting? No, but I spent a lot of time some years ago in the government setting—

Mr. John Vanthof: I don't think anyone would say that you are not an expert in this field. Is your general view as an expert in this field that increased self-regulation isn't of benefit to the people in the financial sector, isn't of benefit to the people of Ontario?

Dr. Al Rosen: No, because we can point to—this is what I think your colleague was asking. If the idea is the Auditor General then saying, "Let's adopt IFRS in Canada," I'll move, because we have so much evidence with the marijuana companies, the real estate companies, the infrastructure companies of collapses, that you're going to have a lot of people out there who are going to lose their shirts on these types of things. We saw this with Nortel and the business income trusts. We saw the suicides and things of that nature. Pretending that it's not going to happen is where we are as a country now. Pretense has to stop.

Mr. John Vanthof: Would it be fair to say that governments have continued to look the other way on this issue is—

Dr. Al Rosen: Being overly polite.

Mr. John Vanthof: Okay, but is it as severe as anything we're talking about, or perhaps more severe than the Fair Hydro Plan?

Dr. Al Rosen: Oh, for sure. You're talking millions and billions.

Mr. John Vanthof: And in your opinion, past governments should know this is happening?

Dr. Al Rosen: They should, yes. You get standard letters. Do you want me to read something after from this book from the finance minister, where he's saying, "Go consult the independent auditors"? Pardon me? They're the ones who are causing the problem. That's where I'm to go?

Mr. John Vanthof: Getting back to the Fair Hydro Plan: When you were saying that people should look—or we should look—and make sure that the advice was arm's length, were you—I'm just trying to define that. Was that arm's length from the government? Or let's say that a financial firm who was doing an audit should be arm's length from another financial firm that's actually advising these various—

Dr. Al Rosen: No. If the same firm has two bosses, that's a conflict. And if your boss is the company and also the government of Ontario, you've got a problem if it's the same type of issue.

Mr. John Vanthof: I know this happened with the Fair Hydro Plan, and I distinctly remember it happening. When we have the Big Four and they agree—the Big Four accounting firms—everything should be fine. In your opinion, that's not really—we shouldn't feel that everything is fine just because the four big accounting firms say so?

Dr. Al Rosen: Absolutely not, and you can find the evidence of who testifies in these cases. They testify against each other. And this is endless. Sorry; they're testifying on behalf of each other.

Mr. John Vanthof: I think this is going to be my final time at the mike. I would just like to thank you very much for your service to the province, for being here today and for giving us some very enlightening answers.

Mr. Gordon Campbell: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Shaw.

Ms. Sandy Shaw: I believe that one of the panelists said, when we were talking about being concerned about future generations, specifically around the cost of energy and that all three political parties did campaign on addressing the impact not just on the current ratepayers and taxpayers but future generations, and someone—and I'm not sure who—said that really you should cease the Fair Hydro Plan and take your hit now. So my question is—I forget who said that: Has that happened, and could you just expand on what that meant?

Dr. Al Rosen: That was me. Mr. Campbell has been talking about clarity and so on. How else can you get the clarity unless your best measurements are made each year and you say, "Here's what's going to happen. Here's the hit we're going to take this year"? I don't think you're going to get the motivation to take the action that's necessary. So let's come up with the figures and the consequences and realize that this is not some trivial issue that comes up with every change of government or whatever you want to call it. This is something that could stagger, or what seems to have been set up is that you've got special

rates to attract industry to Ontario, which means that all of the excess is going to go to the individual taxpayer to take the hit. I find this deceitful.

Ms. Sandy Shaw: Thank you. I guess I'm not clear. Has the adjustment to, as you say, ceasing the Fair Hydro Plan and taking your hit—is that reflected now in the projections of the deficit that you've got here?

Mr. Gordon Campbell: No. The accounting that the Auditor General recommended is reflected here.

Ms. Sandy Shaw: So we still have yet to see what the—

Mr. Gordon Campbell: It's ongoing until it's off, yes.

Ms. Sandy Shaw: So the chickens haven't come home to roost yet? It's still out there, we're still carrying on with the Fair Hydro Plan and we still have not seen the impact? Okay.

Again—rookie MPP—we talk a lot about transparency and accountability and what's fair for taxpayers, we talk about what's fair for investors in terms of understanding the finances and people making decisions on the finances. What would you recommend or what would you suggest—again, as a new MPP who is looking to analyze future legislation/recommendations from this government around this hydro plan—what specific measures, what specific metrics, should I be looking at to help understand whether we're taking the hit now and what the implications will be for future generations?

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Dr. Al Rosen: You'd have to go through line-by-line on the budget and ask the questions, "Where is this located? Where is that?", which is what we had to do. Probably, you have to do it in groups and check it out with other people who are actually independent. We would have to get down to specifics before I could really answer the question.

Ms. Sandy Shaw: Again, indulge me for being a new MPP: I find, as a new MPP and as a new legislator who is trying to make those decisions—as you said, you had to go line by line through the audit. Even though they only gave you six weeks, that's more time than I would say we're getting to look at some of the proposals. We have major bills going through the House that are time-allocated, so there's closure on debate—six and a half hours to debate some of these major pieces of legislation. Given that that seems to be the trend and the practice of this current government—time allocation on huge pieces of legislation—we don't have the time to go line by line through the budget to make those decisions. In lieu of that—I guess sometimes you could describe it as a dashboard of indicators that would help us to know what the ongoing implications of maintaining the Fair Hydro Plan would be.

The Chair (Mr. Prabmeet Singh Sarkaria): Just to caution before the answer, I just want to once again—the question, relative to whether we're talking about time allocation, is not very relevant to our mandate here when we're discussing the transparency in budgets or public accounts and other financial reports or whether we're looking into accounting practices and decision-making policy objectives. So I just want to reiterate that to that

extent. If we can, keep the question in line with our mandate.

Ms. Sandy Shaw: Sure. I guess how it is in line with our mandate is that there are recommendations in the report that we are looking at about setting a path forward and making sure that information is transparent and accessible to legislators as well as the public. So that's how I would say that that is in the mandate. Also, the mandate does say—

The Chair (Mr. Prabmeet Singh Sarkaria): Within the mandate, in the preparation of our budget and in our public accounts and financial reports—in that aspect, and tying into that.

Ms. Sandy Shaw: Yes. Those are the recommendations in the report, and we're talking about transparency and accessibility so people can make future discussions informed. I would also say that the mandate does say and "any other aspect of the report that the committee deems relevant." This is about the report, specifically.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes. I'm not saying that you can't answer the question, but within that context, for the mandate—

Ms. Sandy Shaw: That will probably be the last question that I ask, so I'll let that stand.

I'm really just looking, as we have said—and I think we all agree—that this isn't just about a rearguard action to look at what happened. I keep making the joke that this is not about Professor Plum in the conservatory with the candlestick; this is about understanding how we can prevent this from happening in the future. In order for me to be an MPP and a legislator that can do my job effectively, I'm asking about the kinds of transparency and the kinds of metrics that would help me make those decisions.

Dr. Al Rosen: To me, it ties all into budgeting and getting more efficiency in that process, so I'm not too sure why you're drawing the distinction.

Mr. Michael Horgan: I think, on global adjustment refinancing, the government just takes a decision to get out of that and orders the OPG to not issue bonds anymore. Maybe that has happened already. I don't know, factually—

Ms. Sandy Shaw: Yes, so that was my question; I don't know—

Mr. Michael Horgan: I just, factually, don't know what the government has done on this. Then, with the existing contracts for electricity pricing, the government just takes that onto its books. It's just unwinding the scheme that was set up by the previous government.

Mr. Gordon Campbell: I think the thing that's important is that it doesn't go away. It's real, so you can't just say, "Gee, I wish it wasn't there." All you're doing is reflecting it more appropriately on the government's books, as the Auditor General is recommending. So you can go through that. I'm sure the Auditor General is going to be helpful with that. I'm sure that the finance ministry is going to be looking at doing that, if they're directed to do that. Then you'll know.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof?

Mr. John Vanthof: I misspoke. I said I wasn't going to speak again, but Sandy asked a really good question, and I just need to get it through my head.

The way it stands now with the global adjustment—whatever it's called—smoothing plan, right now, if they cancelled it, hydro rates would go up immediately?

Mr. Michael Hogan: No. It would be the taxpayer, as opposed to this notional idea that the future ratepayer—there's an asset. The future ratepayer—

Mr. Gordon Campbell: The deficit would go up.

Mr. John Vanthof: The deficit would go up, but if the smoothing program was cancelled—

Mr. Gordon Campbell: The deficit goes up. You're paying for it as a taxpayer, as opposed to as a ratepayer. The smoothing program is about the long-term—

Mr. John Vanthof: But if the government was going to cancel the global adjustment, that would go straight on to the bills. If they cancelled global adjustment—

Mr. Michael Hogan: No, no.

Mr. John Vanthof: No?

Mr. Michael Hogan: No.

Ms. Sandy Shaw: It wouldn't go to the ratepayers.

Mr. Michael Hogan: The question is, the government has made a commitment to a certain electricity price. In the future, there's an issue of electricity pricing in the province—

Mr. John Vanthof: Big time.

Mr. Michael Hogan:—that the government and the Legislature are going to have to address. All you're saying is that we don't believe that there is an asset, because future ratepayers are going to pay for what we're doing with global adjustment financing; the taxpayer will pay for that now.

So you can keep electricity prices the same if you want to, but you're having the taxpayer pay for it as opposed to this scheme of—

Ms. Sandy Shaw: The future ratepayer.

Mr. Michael Hogan: Right. And that's where you get the increase in the deficit, through the proper accounting of that.

Mr. John Vanthof: Okay. Thank you.

Ms. Sandy Shaw: I'm also done, but I would also like to thank you for your indulgence and your report. I read it quite thoroughly. You can see all my highlights.

Also, Dr. Rosen, I'd like a copy of your book because I like the title. Who wouldn't want to read a book called Swindlers?

Dr. Al Rosen: Are you trying to sleep quickly at night?

Ms. Sandy Shaw: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I'll turn it over to the government side. Mr. Baber.

Mr. Roman Baber: Dr. Rosen, if I may, I heard you a couple of answers ago in response to some of the questions by my friend Ms. Park. You brought up Nortel and Sino-Forest as some of the more notable bankruptcy scandals in Canadian history. I'm wondering if you could perhaps offer some concrete similarities between either the formulation or the execution of the Fair Hydro Plan and some of the notable Canadian bankruptcies that you've mentioned.

Dr. Al Rosen: I'm trying to think of the best one. You've got a problem with Sino-Forest, for example, where what they were doing is they were categorizing timber that was acquired. They were calling it a non-current asset down on the bottom of the balance sheet, and they kept buying more and more and more. This was investment dollars spent. We talk about the three categories: operations, financing and investing. They bought stuff and they put it in as an investment on the balance sheet. They then had fictitious sales on the income statement, because they had all of this imaginary forest and so on, and therefore they had imaginary costs of goods sold as well.

When you went over to the cash-flow statement, which is what the analysts were using to play with the stock price, you had something called depletion, which is non-cash, which you would add back to your profits, and therefore you would get this enormous cash flow from operations.

When we look at what's happening in, for example, the pensions, and to some extent the Fair Hydro Plan, you've got the same sort of situation. Don't call an expense as a cash item; convert it and call it as a non-cash item.

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Rather than the cash flow statement showing cash costs to goods sold, what Sino-Forest did was label it as non-cash, depletion. So you had this huge cash from operations, which the analysts were putting the multiple on, and therefore you had this enormous stock price. On that basis, Canada got stiffed, if you'll pardon the expression, because most of the stock sales and so on occurred in Canada. So you have a Chinese company with operations in the British Virgin Islands—no serious employment in Canada at all—but they came to Canadians to donate the money that they would no longer see in their lifetime. In that type of situation, when you look at the non-existent pensions—same type of imaginary assets.

When you look at the Fair Hydro Plan, you've got this imaginary asset of what you're going to collect in the future.

The pattern runs through many of these same types of things. All the ones you've mentioned, I've testified in, and a lot more besides.

So there is a pattern in Canada that has to be stopped.

Mr. Roman Baber: Just to summarize what you just said: The comparison between Sino-Forest and the Fair Hydro Plan is that you have a mischaracterization of financial items and you have an imaginary asset, being the—

Dr. Al Rosen: Yes. They had an imaginary company.

Mr. Roman Baber: Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Dr. Rosen, we've heard so much, and I think what is very critical that the people need to understand—maybe we can walk it through in a very basic format. The point that I think is most critical is, you made the reference, when we were last speaking, that this isn't trivial. What you were referring to wasn't trivial was the

state of where we're at right now—this whole experience, this whole committee that we're working on.

Excuse the preamble here, but for some time, as we were in the process of retaining the three of you to be the commission of inquiry, and then through this process of this committee being created, we heard, "People just need to move on," and, "This is just what governments do when they change over. They always cry about the finances. They always cry and say, 'Oh, but the deficit is really bad.'" People would say, "Oh, you're just getting ready to make cuts."

Mr. Campbell, to your comment—you did make some reference earlier to some very, very difficult decisions that this government is going to have to make, but I don't want to get into that right now.

What I want to refer to is, you made the comment, Dr. Rosen, that this is not trivial, and I would suggest—my question—people need to know and they need to understand the current state that we are in financially in this province. Is that a fair question?

Dr. Al Rosen: Yes, 100%.

Mr. Ross Romano: The reason why we're in that state is in large part because of things like the Fair Hydro Plan and the way the pension assets were treated. Yes?

Dr. Al Rosen: Yes, but it's a longer list, in my opinion, than—

Mr. Ross Romano: So these are just two that we've highlighted, but there are others, you're saying.

Mr. Gordon Campbell: Right.

Mr. Ross Romano: I want to just try to see if we can find a way to keep this really simple for the people out there to understand what happened. I'll just use the Fair Hydro Plan act only as an example. When these imaginary assets—my friend just asked you that question. This whole rate-regulated Fair Hydro Plan and what was happening—at the end of the day, they created imaginary assets?

Dr. Al Rosen: Yes.

Mr. Ross Romano: Okay—an imaginary company, in fact, you noted.

Dr. Al Rosen: Yes. Well, he asked me for an analogy—

Mr. Ross Romano: Yes. And they knew at the outset. From what you're uncovered and what we saw in the Auditor General's report, the government of the day knew the Auditor General would never approve of this type of creation of imaginary assets. Correct?

Dr. Al Rosen: So they brought in these other people.

Mr. Ross Romano: So they brought in these independent auditors, and they paid them, to the tune of \$2 million, to tell them what they wanted to hear. Correct?

Dr. Al Rosen: Can you delete the word "independent"?

Mr. Ross Romano: Absolutely. So they brought in these auditors, they brought in KPMG, they brought in Deloitte, they brought in Ernst and Young, and they hired legal counsel to tell them what they wanted to hear. Fair?

Dr. Al Rosen: That's what it smelled like to me. I didn't gather the detailed proof.

Mr. Ross Romano: Okay. To go through all of that trouble—I think we heard at one point here that the only

reason why they would have done that, to go through to that end, had to have been political in nature.

Dr. Al Rosen: That's what it would seem to me, again.

Mr. Ross Romano: Right. We're referring to re-election.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano, just imputing motive, one more time. Just a—

Mr. Ross Romano: Fair enough.

Would you call it something else?

Dr. Al Rosen: Until you have the proof of something that is intent and fraud and things of that nature, you can't really walk into that path.

Mr. Ross Romano: Right.

Dr. Al Rosen: You get the proof first, then you go to the police, who say they're too busy, and then you—I don't know what else to say.

Mr. Ross Romano: But if you were to go through—from what I'm hearing, you're saying you were at least very suspicious that that path is what was taken, in essence.

Dr. Al Rosen: I thought both the Fair Hydro Plan and the pension, on their surface—the term you get in graduate school is “face validity”—that it didn't have face validity, neither one. So I didn't understand why there was some of the debate. But we went through the process, and it didn't change my mind.

Mr. Ross Romano: Understood.

With respect to these auditors—and I can clearly see the look on your face when you're answering these questions, so I will keep it very simple. For people out there to understand on a very basic level—and I won't give the exact numbers, but it was close to \$100,000 but not quite \$100,000 per year that the government of Ontario spent on auditors in the two years preceding 2017. Then, in the year that the Fair Hydro Plan Act was concocted, the fees escalated to nearly \$700,000. Does that support the belief that you have that they, essentially, hired people to just give them the answer they wanted?

Dr. Al Rosen: It makes me very suspicious, yes.

Mr. Ross Romano: Fair enough.

Now I want to talk a bit about this term, “accounting dispute” or “just a dispute between accountants,” because I think that is very critical for people out there to understand.

We know that the Auditor General, as you've already indicated, would never have approved these kinds of imaginary assets being created. We know the government knew that. So isn't it fair to say that the government set out to pick a fight with the Auditor General?

The Chair (Mr. Prabmeet Singh Sarkaria): Once again, just imputing motive—in terms of “picking a fight.”

Dr. Al Rosen: I think they realized that they needed somebody to give an opinion to support them. In my bias, it was carefully selected who would do it.

Mr. Ross Romano: Okay. That was carefully selected as to who—can you please state who you're referring to and at what auditing firm? Would you be prepared to refer to who you—you said it was carefully selected, in your bias.

Dr. Al Rosen: You want me to slit my throat?

Mr. Ross Romano: Okay. Well, then that's fine. I won't go there.

Let me ask you this: This reference to, again, an accounting dispute—would you agree that the only way to sell this Fair Hydro Plan to the people of Ontario, and in a way that they would not understand, was to essentially pit an independent—and I know you want me to delete that word—auditor against the Auditor General? That was the only way you were going to be able to sell it to the people of Ontario without them being able to understand it.

Dr. Al Rosen: To try to, because I don't think they were that successful.

Mr. Ross Romano: Okay, thank you. I'll take that as a yes.

The effect of that, ultimately, was that, as you said, the people of Ontario were deceived.

The Chair (Mr. Prabmeet Singh Sarkaria): Once again, Mr. Romano—

Mr. Ross Romano: You're nodding in the affirmative, so the answer would be yes.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano, I'm just going to have to caution once again on imputing motive. Also, if the imputing motive continues, we'll have to ask you to move on to a different line of questioning.

Dr. Al Rosen: Can you rephrase—

Mr. Ross Romano: Right. I'll just move on. I think we already have your answer.

The net effect now—to use Mr. Horgan's reference earlier—is that we now have a situation in Ontario where we're sitting with this \$15-billion deficit—at a bare minimum, from Mr. Campbell's comments. From Mr. Horgan's comments, we are now in a far worse position as a province, financially, than we were prior to the 2008-09 recession in this province.

Dr. Al Rosen: Because there was a bit of a cushion at that time.

Mr. Ross Romano: And we don't have that cushion any longer.

Dr. Al Rosen: Exactly.

Mr. Ross Romano: Okay.

Dr. Al Rosen: And that was after a long period of inappropriate games going on in the US that led to 2008-09.

Mr. Ross Romano: Now, I can't ask you a question that would impute motive, but I'm going to ask you for your professional opinion. In your professional opinion, was there any other reason you could conceive of why the government would have hired these auditors simply to contradict what the Auditor General of Ontario was saying?

Dr. Al Rosen: You've asked me that question before, in a bit stronger wording, but I couldn't think of another one. Of course, you set up your hypotheses as a forensic accountant and then test them by gathering the evidence and so forth. We didn't go through that process, but my hypotheses were along the lines that I think you're trying to get at.

Mr. Ross Romano: Okay, thank you. Well, I think you've been exceptionally patient with us today and I thank you very much for your time. It's very much appreciated. It looks like you will definitely catch your flight, Mr. Campbell.

Mr. Gordon Campbell: Thank you very much.

Mr. Ross Romano: I again just want to thank you all for taking the time and being as thorough and thoughtful as you have been for us today.

The Chair (Mr. Prabmeet Singh Sarkaria): We still have time for the NDP. Were there any further questions?

Mr. John Vanthof: No.

Ms. Sandy Shaw: No.

The Chair (Mr. Prabmeet Singh Sarkaria): And no further questions for the last 10 minutes? Okay.

Thank you very much. Once again, thank you very much to Mr. Horgan, Mr. Campbell and Dr. Rosen for your time and co-operation here. We really appreciate it.

I'm just going to ask that the members of the sub-committee please stay back just for a quick minute if there is some time.

With that, committee is now adjourned until tomorrow. Thank you.

The committee adjourned at 1712.

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