

Chapter 3

Section 3.06

Public Accounts of the Province

Standing Committee on Public Accounts Follow-Up on Chapter 2, 2014 Annual Report

The Committee held a public hearing on our 2014 Chapter 2 Public Accounts of the Province in November 2015. It tabled a report in the Legislature resulting from this hearing in April 2016. The full report can be found at www.ontla.on.ca/committee-proceedings/committee-reports/PublicAccountsoftheProvince.

The Committee made a total of five recommendations and asked the Treasury Board Secretariat to report back on the first three recommendations by June 4, 2016, and the last two recommendations by August 3, 2016. The Deputy Minister of the

Treasury Board Secretariat formally responded to the Committee for the first three recommendations on June 2, 2016, and on August 3, 2016, for the last two recommendations.

Information was provided to the Committee as requested for all five recommendations. The status of the Committee's recommendations is shown in **Figure 1**.

Figure 2 shows the recommendations and the status details that are based on responses from the Deputy Minister of the Treasury Board Secretariat and our review of the information provided.

Figure 1: Status of Actions Recommended in Committee's Report

Prepared by the Office of the Auditor General of Ontario

	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented*	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	1		1		
Recommendation 2	1	1			
Recommendation 3	1	1			
Recommendation 4	1	1			
Recommendation 5	1	1			
Total	5	4	1	0	0
%	100	80	20	0	0

* Some recommendations required the Ministry to provide information to the Committee. The cases in which the Ministry provided the information as requested have been counted as "fully implemented."

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
<p>Recommendation 1 Officials provide details on the government's long-term debt reduction plan of reducing net debt-to-GDP ratio from 2013/14 levels of 38.6% to pre-recession levels of 27%. Status: In the process of being implemented.</p>	<p>The government published its fiscal plan in the 2016 Budget. It includes Ontario's plan for eliminating the deficit in 2017/18, managing the debt, and growing the economy, all of which are critical for reducing the net debt-to-GDP ratio.</p> <p>Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario is making public infrastructure investments of more than \$137 billion over the next 10 years, or about \$160 billion over 12 years, starting in 2014/15.</p> <p>The government's plan is to balance the annual budget and continue to make investments in capital assets, which it has indicated will add to economic growth. As GDP grows more quickly and surpluses are experienced, the net debt-to-GDP ratio will decline over time to meet the government's target. The projected date of achievement has not yet been identified.</p>

Committee Recommendation	Status Details
<p>Recommendation 2 Officials provide clarification and further details on measures to be taken relating to the statement that “the government is committed to eliminating the annual deficit by 2017–18.” Status: Fully implemented.</p>	<p>The 2016 Budget reported that the government was projecting a deficit of \$5.7 billion in 2015/16—an improvement of \$2.8 billion compared to the 2015 Budget forecast. The actual deficit in 2015/16 was \$5 billion. The government is projecting a deficit of \$4.3 billion in 2016/17 and balanced budgets in 2017/18 and 2018/19.</p> <p>Supported by the outlook for continued economic growth, revenue was projected to grow by an average annual rate of 4.6% between 2014/15 and 2018/19. Program expense was projected to grow at an average annual rate of 1.9% over the 2014/15 to 2018/19 period.</p> <p>Ontario’s plan to eliminate the deficit includes:</p> <ul style="list-style-type: none"> • transforming government and responsibly managing spending; and • ensuring revenue integrity and addressing the underground economy. <p>Further details about the plan for transforming government and responsibly managing spending include:</p> <ul style="list-style-type: none"> • Program Review Savings Target—The 2014 Budget announced a program review savings target set at \$250 million for 2014/15 and \$500 million for 2015/16. The 2014/15 target was met, and the 2015/16 target was met. • Program Review, Renewal and Transformation (PRRT)—PRRT is helping the government achieve better outcomes while also lowering costs. PRRT will remain focused on ensuring government programs and services are effective, efficient and sustainable. • Managing Compensation—The 2015 Budget required any modest negotiated wage increases to be offset by other measures to create a net-zero outcome. Since then, net-zero outcomes have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations. From July 2012 to February 2016, the provincial public-sector average annual wage increases averaged 0.6%, which is below the municipal (1.8%), federal (1.7%) and private sectors (1.9%) in Ontario. <p>Further details about the plan for ensuring revenue integrity and addressing the underground economy include:</p> <ul style="list-style-type: none"> • Since 2013/14, the government has made progress in fighting underground economic activities. Consultations were held with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy. Through ongoing enhanced compliance-focused measures, including those that address underground economy activity in high-risk sectors, Ontario has generated over \$930 million to date—a \$330 million increase over the amount reported in the 2015 Budget. The Province required corporations to demonstrate compliance with federal and provincial taxes before receiving government procurement contracts. Since February 2014, the government has verified compliance for more than 2,200 contracts. The <i>Taxation Act, 2007</i>, was amended to make the sale, use or distribution of electronic sales suppression devices an offence. • The Province is continuing to focus on underground economy activities in all high-risk sectors, and will continue to take concrete action to better support consumer and worker safety, as well as provide a level playing field for businesses. • The Province is prepared to launch specialized audit teams to focus on sectors that are at high risk of underground economic activity, in partnership with the Canada Revenue Agency.

Committee Recommendation	Status Details
<p>Recommendation 3 Officials provide supporting data confirming that average annual growth in program spending has been held to 1.4% less than the rate of inflation. Status: Fully implemented.</p>	<p>This is a reference to the 2010/11 and 2014/15 period. As outlined on pages 286 and 287 of the 2016 Budget, 2010-11 actual program expense was \$111,706 million, and 2014-15 actual program expense was \$118,225 million.</p> <p>This represents an increase of 1.4% per year (where growth rate is calculated using the standard compound average growth rate formula).</p> <p>This increase of 1.4% per year is less than the rate of inflation, which averaged 2.0% over the 2010-14 period (per Statistics Canada CANSIM table 326-0021).</p>
<p>Recommendation 4 Officials provide an update on specific impacts of removing the debt retirement charge from residential users' electricity bills after December 31, 2015. Status: Fully implemented.</p>	<p>Prior to eliminating the Debt Retirement Charge (DRC) for residential users on January 1, 2016, the DRC provided annual revenues of about \$950 million from residential and industrial users to the Ontario Electricity Financial Corporation (OEFC). The revenues of OEFC are consolidated into Public Accounts.</p> <p>Residential users account for about a third of electricity consumption subject to the DRC. Therefore, on an annualized basis, the direct DRC revenues forgone from removing the DRC cost from residential bills is estimated to be over \$300 million.</p> <p>The projected amount of DRC revenue in 2016/17 in the 2016 Budget is \$625 million.</p>
<p>Recommendation 5 Officials provide an update on what impact the <i>Budget Measures Act, 2015</i> may have on the residential stranded debt as it relates to calculating and repaying this debt. Status: Fully implemented.</p>	<p>The <i>Electricity Act, 1998</i> was amended by the <i>Budget Measures Act, 2015</i> providing for a fixed legislative end date for the Debt Retirement Charge (DRC) for industrial, commercial and all other users of electricity.</p> <p>Previously, under the <i>Electricity Act</i>, DRC would have ended when the residual stranded debt was determined to be retired.</p> <p>As the purpose for calculating the residual stranded debt was eliminated with the introduction of a fixed legislative end date for the DRC, all reference in the <i>Electricity Act</i> to the "stranded debt" and "residual stranded debt" were removed with the amendments enacted with the <i>Budget Measures Act, 2015</i>. This included the removal of the requirement to determine (that is, calculate) the residual stranded debt from time to time and the regulation-making authority for O. Reg. 89/12—rendering the regulation obsolete.</p> <p>Even with the legislated end date to the DRC, stranded debt continues to exist.</p> <p>Under the <i>Electricity Act</i>, the Ontario Electricity Financial Corporation (OEFC) continues to have a requirement to provide an Annual Report, including annual financial statements, which include the annual update of its "unfunded liability" (sometimes called the "stranded debt"). This provides transparency on OEFC's revenues (including the DRC) and costs, and progress on pay-down of stranded debt. OEFC's annual financial statements are published in Volume 2 of Public Accounts.</p> <p>Following the end of the DRC, under the <i>Electricity Act</i>, OEFC continues to receive other dedicated revenues, such as payments in lieu of taxes from OPG and municipal electricity utilities, the provincial portion of corporate income taxes from Hydro One, and the Gross Revenue Charge (portion related to property taxes on hydro-electric stations), toward servicing and paying down its debt and other liabilities.</p>