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## CHAPTER TWO

# Toward Better Accountability

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## 2.01

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### ONTARIO FINANCIAL REVIEW COMMISSION

The Ontario Financial Review Commission was established in the summer of 1995 by the Minister of Finance in order to review the government's financial practices. In November 1995, the Commission presented the Minister with its report, entitled *Beyond the numbers: A new financial management and accountability framework for Ontario*. The report laid out a cycle of planning, reporting, monitoring and evaluating that was aimed at moving the government from a process orientation to a more performance-based orientation.

In its report, the Commission made 55 recommendations covering three main areas: planning, financial reporting and Crown agencies. The Commission agreed with the government's focus on deficit and debt reduction as a major priority and noted that using resources more efficiently would help the government meet its fiscal targets while preserving vital public services.

Three weeks after receiving the Commission's final report, the government announced in the November 1995 *Fiscal and Economic Statement* that it was acting on several recommendations immediately. In the May 1996 *Ontario Budget*, the government provided a detailed response to each of the 55 recommendations. At that time, the government indicated that many recommendations had been implemented, a number were in the process of being implemented and some needed legislative changes for implementation.

Two years have passed since the government last reported on the progress made in implementing the Commission's recommendations. We therefore decided to provide an update on the status of the actions taken on the Commission's 55 recommendations.

Following our request for a status report, in March 1998 we received a joint response from the Deputy Minister of Finance and Secretary of Management Board of Cabinet. This response specified their assessment of the status of each recommendation (implemented, in process or not being implemented) as well as a description of the specific actions taken or planned. We reviewed this response and supporting documentation and had discussions with staff from the Ministry of Finance and Management Board Secretariat. Based on these discussions, we were provided with an updated response to certain of the recommendations on May 15, 1998.

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# STATUS OF RECOMMENDATIONS

At the time of our review, the government had implemented almost two-thirds of the 55 recommendations made by the Commission in its November 1995 report. Fourteen recommendations were in the process of being implemented and these, along with a description of the government action taken or planned, are listed in the appendix at the end of this section. In addition, the appendix identifies the six recommendations that the government had decided not to implement together with its rationale.

The following table indicates the number of recommendations that have been implemented, are in process or are not being implemented.

Status of Recommendations	#	%
Implemented	35	64
In Process	14	25
Not Being Implemented	6	11
	55	100

## HIGHLIGHTS

In the executive summary of its 1995 report, the Commission highlighted its key recommendations. Of these, the government has implemented the following:

- Adopted a prudent planning framework which encourages cautious forecasting and better expenditure planning.
- Disclosed its deficit reduction targets and projected debt levels in its annual Budget and included a contingency fund in the Budget to cushion against unforeseen economic changes.
- Initiated a system of recognition and rewards to motivate effective and efficient behaviour.
- Adopted accounting and reporting standards for the Budget as recommended by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.
- Established a framework for deciding which type of organization—a ministry, a Crown agency or the private sector—would deliver services most effectively.

On the other hand, there were several key recommendations identified in the Commission’s executive summary that the government was still in the process of implementing or had decided not to implement. Those recommendations that were in process related to the implementation of a government-wide financial system, annual business planning and the need for a credible plan to eliminate the Workplace Safety and Insurance Board’s unfunded liability. The recommendations that the government had decided not to implement pertained to the timing of the Budget and estimates review process.

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## GOVERNMENT-WIDE FINANCIAL SYSTEM

The Commission recommended that the government adopt one financial management and reporting system to replace the many, largely incompatible systems currently being used by the different ministries. The implementation of an enterprise-wide financial system is also critical to the implementation of three other recommendations (II.1, II.5 and II.12 as noted in the appendix) which require information that cannot be readily produced by the government's current financial systems.

In April 1997, Management Board of Cabinet approved a project to implement a government-wide financial system. Implementation of the system was initially targeted for the end of the 1999/2000 fiscal year. In our *1997 Annual Report*, we indicated that an implementation plan and timetable had been developed, and a new senior position (Assistant Deputy Minister) had been established to provide the appropriate leadership for this challenging project. At that time, the Ministry of Finance advised us that the implementation date was targeted for the 2000/01 fiscal year. Subsequently, in late 1997, the Assistant Deputy Minister (ADM) responsible for the project accepted another position in the government, and a new ADM was appointed.

It is essential that progress be closely monitored and sound information technology project management practices be followed so that this business critical project experiences no further delays and is delivered in a well-controlled manner.

## PREPARATION OF BUSINESS PLANS

The Commission recommended that the government prepare a business plan as part of the annual Budget and that its ministries and agencies prepare annual business plans to cover the upcoming fiscal year and the following two years. The Commission believed that the annual business plan for the government as a whole should set out the government's priorities, outline specific goals for its overall performance, and require measurement of progress toward those goals. It felt that setting goals, explaining how progress would be measured and reporting on the results with the aim of further improvement were all elements of performance measurement.

The government has made considerable progress in this area. Each ministry annually prepares a detailed business plan, a summary of which is tabled in the Legislature, although this requirement has not been legislated as the Commission recommended. However, there was no overall government business plan outlining specific goals and priorities in sufficient detail for ministries to use as the basis for their business planning. Furthermore, no legislative committee had been given the task of reviewing each ministry's business plan, as suggested by the Commission.

## WORKPLACE SAFETY AND INSURANCE BOARD

The Commission recommended that the Workplace Safety and Insurance Board (WSIB, formerly the Workers' Compensation Board) draw up a credible plan to eliminate its existing unfunded liability which amounted to \$11.4 billion at December 31, 1994. The unfunded liability had been reduced to \$8.1 billion at December 31, 1997 as a result of several factors. These factors included the impact of current amendments to the *Workplace Safety and Insurance Act*, high investment returns, reduced claims volumes and low inflation. The WSIB has also developed a proposed new funding plan which is scheduled for review by the WSIB Board and the Minister of Labour this summer.

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## *TIMING OF THE BUDGET AND ESTIMATES REVIEW PROCESS*

The review of ministry *Expenditure Estimates* by the Standing Committee on Estimates and legislative debate on the government's spending plans takes place well into the year in which the expenditure occurs. Accordingly, the Commission recommended that the government table the Budget before the start of the fiscal year and that it speed up the legislative estimates review process so that ministry spending plans could be reviewed early enough to have meaningful input. The Commission recognized that its recommendations in this area would have implications for the legislative process and, accordingly, recommended the issue be reviewed by a legislative body. These recommendations were consistent with those made in our *1995 Annual Report*.

The government has indicated that it will not be adopting these recommendations. Rather, it will continue with its current practice of tabling the Budget, Estimates and ministry business plans early in the fiscal year after receiving input from the Standing Committee on Finance and Economic Affairs, public consultations and the federal Budget, which is normally tabled in February. As yet, no legislative committee has addressed the Commission's recommendations.

We noted that, with one exception, all Canadian jurisdictions tabled their 1998/99 budgets before the start of the fiscal year. We continue to urge that the recommendations of both the Commission and my Office concerning improvements to the legislative estimates review process be considered by the Standing Committees on Estimates, Finance and Economic Affairs, and Public Accounts.

## *CONCLUSION*

The government has made good progress to date. Although there is no mandatory requirement to adopt any of the Commission's recommendations, the government has implemented, or is in the process of implementing, almost 90% of them. We acknowledge that a number of the recommendations that are in process are difficult or require more time to implement. Furthermore, two of the six recommendations that the government will not be implementing are no longer applicable due to legislative or other changes.

Notwithstanding the progress made to date, we are particularly concerned about the following issues. Since the one financial system affects several recommendations and is needed to provide better information for government decision makers, we urge the government to ensure this critical government-wide system is implemented on time. Although all other Canadian federal and provincial governments, with one exception, table their budgets before the start of the fiscal year, the Ontario government has decided not to table its Budget before the start of the fiscal year. As well, the government has decided not to initiate a review of the legislative estimates review process, which the Commission noted was ineffective.

# APPENDIX

The first part of the appendix lists the 14 recommendations of the Ontario Finance Review Commission that were in the process of being implemented at May 15, 1998, along with the action taken or planned to address the recommendation. The second part lists the six recommendations that have not been implemented for various reasons.

## PART 1

### RECOMMENDATIONS IN PROCESS OF BEING IMPLEMENTED

# 2.01

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>I. PLANNING</b>	
<b>A. Framework for Fiscal Planning</b>	
<p>I.2 That government present a three-year business plan as part of its annual Budget. This business plan should:</p> <ul style="list-style-type: none"> <li>• outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;</li> <li>• explain government's targets for effective and efficient performance and how it will measure progress towards them;</li> <li>• report on progress toward established goals and explain the reasons for changes from its previous plan; and</li> <li>• outline the revenue, expenditures and economic projections for the upcoming year and the following two years.</li> </ul>	<p>The annual Budget reports on the government's progress towards achieving its five-year plan to balance the Budget. It outlines specific fiscal performance measures, a three-year economic projection and a two-year fiscal forecast. It gives interim results for the fiscal year just ended. It also provides a 10-year historical performance comparison of key economic and fiscal data. Ministry business plans identify how their respective three-year plans support the government's action plan. Although the business planning framework is in place, continued refinements will ensure that the process continues to improve its capacity to fully meet the objectives of the OFRC recommendation.</p>
<b>B. Better Fiscal Management and Revenue Forecasting</b>	
<p>I.6 That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.</p>	<p>Although this recommendation refers to the Budget, its intent is that these trends be identified and made public as part of the government planning process. The 1998/99 business plan instructions requested ministries to provide an assessment of risk with respect to the ministry achieving its mandate over the planning horizon. Key cost drivers, which could affect the ministry's major spending and non-tax revenue programs from being delivered on time and within budget, or prevent the ministry from meeting the needs and expectations of clients and partners, are to be identified as an ongoing part of the government planning process.</p>

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>C. Business Plans and Performance Measurement</b>	
<p>I.15 That the government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.</p>	<p>Ministries are now required to submit detailed three-year business plans for review and approval by Management Board of Cabinet. The plans identify the vision, key strategies, policy risks and core businesses of each ministry in the context of meeting the government's overall fiscal plan and operational priorities. The detailed ministry plans may contain proposals, which are advice to Cabinet, or other information considered confidential under the <i>Freedom of Information and Protection of Privacy Act</i>.</p> <p>The public business plans are extracted from the approved ministry business plans. The public business plans have been tabled following the Budget for the last two years, and have been made more accessible through government web-site access and the production of a brochure listing major initiatives from all business plans entitled <i>Making Progress, Managing Change: A Report to Ontario Taxpayers</i>.</p> <p>As it evolves, the new planning framework adopted in Ontario will strengthen linkages between planning, monitoring, reporting and evaluation as performance measures are refined, and the cycle becomes well established so that past performance influences emerging plans.</p>
<p>I.16 That, as part of the framework, each ministry:</p> <ul style="list-style-type: none"> <li>• prepare a three-year business plan that reflects the government's priorities;</li> <li>• maintain the three-year outlook by updating its plan annually before the start of each fiscal year;</li> <li>• specifically address in the plan the measurement of progress toward its stated goals and reasons for changes to its previous plan;</li> <li>• outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;</li> <li>• include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;</li> <li>• explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and</li> <li>• provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.</li> </ul>	<p>The framework described in I.15 is being implemented through ministry activities. All ministries have prepared both internal and public business plans for 1996/97 and 1997/98 and are currently developing the 1998/99 internal business plans.</p> <p>The three-year plans are based on the government's priorities and are updated annually. The internal plans also identify the operating, capital and non-tax revenue resources requirements necessary to achieve their strategic goals.</p> <p>All ministries' business plans establish core businesses, key outcomes and performance measures. The 1998/99 internal business plans will report on ministries' resource requirements by core business for three fiscal years and identify achievements of 1997/98 commitments or provide a rationale for changes to previously published commitments.</p> <p>Both the internal and public business plans contain detailed spending plans for the coming year, applicable revenue forecasts, and directions for the medium term.</p> <p>Ministries continue to engage in consultations to help determine appropriate accountability and performance measures, including specific quantitative indicators.</p> <p>The 1997/98 performance measures were reviewed mid-year by a Committee of Parliamentary Assistants who provided Management Board with recommendations to improve and refine performance measurements for the next business planning cycle. The government's balanced budget plan sets out annual deficit targets to eliminate the deficit by 2000/01.</p>

# 2.01

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>II. FINANCIAL REPORTING AND ACCOUNTING</b>	
<b>A. Accounting Basis and System</b>	
II.1 That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.	The government has adopted this recommendation in the Budget and Ontario Finances. The government is working towards adopting this recommendation for spending authority. Significant investment in financial systems and training is required to support the transition to PSAAB standards for spending authority.
II.2 That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.	The government has initiated a project to implement one financial system targeted for the 2000/01 fiscal year.
<b>B. Financial Reporting</b>	
II.4 That government's annual report and the Public Accounts be presented no later than 120 days after the year-end, but preferably within 90 days.	The Public Accounts for 1996/97 were tabled in the Legislative Assembly on September 9, 1997. The Ministry of Finance will continue to review means to move up the Public Accounts release within the established target of 90-120 days. The 1995/96 <i>Public Accounts</i> had been tabled on September 30, 1996.
<p>II.5 That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter:</p> <ul style="list-style-type: none"> <li>• an updated fiscal forecast for the year, compared to the Budget plan for the year; and</li> <li>• actual results for the current year to date, compared to year-to-date actual figures for the prior year.</li> </ul> <p>The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.</p>	<p>The quarterly Ontario Finances are prepared on a PSAAB basis and take into account changes in economic conditions which affect revenue projections. The Ontario Finances provide an updated year-end forecast compared to the Budget plan for the year. The reporting of in-year actual results in Ontario Finances is being considered as part of the implementation of one financial system.</p>
<b>Ontario Hydro and Workers' Compensation Board [now Workplace Safety and Insurance Board]</b>	
<p><i>Ontario Hydro</i></p> <p>II.6 That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.</p>	The government accepts this recommendation in principle and is working with Ontario Hydro on this and other matters impacting the future of the electricity market in Ontario.
<p><i>Workers' Compensation Board</i></p> <p>II.7 That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and the government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.</p>	The government is implementing this recommendation. The reforms of the <i>Workplace Safety and Insurance Act</i> , which came into force on January 1, 1998, will ensure that the WSIB's unfunded liability is eliminated by 2014. The unfunded liability at year-end 1997 was \$8.1 billion, down from \$11.4 billion at year-end 1994. The WSIB will soon replace the funding strategy which has been in place since 1984. The proposed funding policy to ensure the unfunded liability's elimination will be reviewed by the Board of Directors and forwarded to the Minister of Labour, as required by Cabinet, in the summer of 1998. The proposed plan will include realistic short-term benchmarks and a periodic formal review procedure to ensure that the plan is monitored and adapted according to experience and future economic/financial projections.

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>C. Accounting Issues</b>	
<b><i>Treatment of Capital Assets</i></b>	
<p>II.12 That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, the government should adopt them.</p>	<p>The government is actively considering the future implementation of the recently approved PSAAB recommendations for tangible capital assets as part of the one financial system project.</p>
<b>III. CROWN AGENCIES</b>	
<b>A. Service Delivery</b>	
<p>III.4 That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurements of costs and benefits of agency status, as discussed in Recommendation III.2 [not included in this appendix].</p>	<p>A review is underway to revise the Corporate Management Directive on agencies. It will ensure that appropriate accountability mechanisms are in place to define expectations of the agency, monitor and report on performance and take performance-based action based on the lessons learned. This new Directive, together with the Corporate Management Directive on accountability, will provide the framework for ongoing assessment of the performance of government-funded entities.</p> <p>The government continues to work on a proposed Public Sector Accountability Act that would require all publicly funded organizations, including agencies, to publicly disclose, in a corporate plan and annual report, information on the objectives of the organization, the plan and resources for carrying out those objectives, and the performance of the organization against the plan. It also would require them to benchmark their activities against the public and private sector to ensure that best practices are followed.</p>
<b>B. Accounting and Accountability for Existing Agencies</b>	
<p>III.8 That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.</p>	<p>The Ministry of Finance continues to work with agencies on improving financial statements disclosure in this area. Most agencies now provide additional disclosure in this area.</p>
<b>C. Recommendations Specific to Agencies</b>	
<b><i>Development Corporations of Ontario</i></b>	
<p>III.14 That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.</p>	<p>The Board of Development Corporations of Ontario is reviewing this as part of the wind down of the corporations.</p>



**PART 2**

**RECOMMENDATIONS NOT BEING IMPLEMENTED**

**2.01**

COMMISSION RECOMMENDATION	GOVERNMENT RATIONALE FOR NOT IMPLEMENTING
<b>I. PLANNING</b>	
<b>B. Better Fiscal Management and Revenue Forecasting</b>	
I.13 That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.	The government will continue with its current practice of tabling the Budget and business plans early in the fiscal year after receiving input from the Standing Committee on Finance and Economic Affairs, and from the public consultations and input from the federal Budget normally tabled in February.
<b>D. Legislative Role</b>	
I.18 That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.	The business planning process implemented by the government in 1996/97 has evolved and matured under a process of continuous improvement. In light of the prominence of the process both for internal government decision making and for public reporting, the concept has been proven and is established. However, the government has not taken any action to date to legislate ministry business plans.
I.19 That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.	We are not aware of any plans by the Legislature or any of its committees to review the Standing Orders of the Legislative Assembly of Ontario which determine the current Estimates process and, in conjunction with specific legislation, govern the establishment of spending authority.
<p>I.20 That the special review [of the Estimates process] consider the following additional suggestions from the Commission:</p> <ul style="list-style-type: none"> <li>• an appropriate committee of the Legislature, which could be a renamed and redefined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;</li> <li>• the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;</li> <li>• in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;</li> <li>• the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;</li> <li>• committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and</li> <li>• spending authority should be secured immediately after the tabling of the Budget.</li> </ul>	<p>As noted in the response to I.19, no special review is planned. The existing Standing Orders of the Legislative Assembly of Ontario set out the process for the review of the Estimates by the Standing Committee on Estimates, including the selection of particular ministries for review.</p> <p>Some of the suggestions for reviewing ministries' plans are currently in practice under the existing Standing Committee on Estimates mandate. For example, committees routinely are able to summon or call members of the Ontario Public Service as required.</p> <p>In order to further improve the information available to the public and to members of the Legislature, the government has introduced a number of measures including the annual publication and tabling in the Legislature of ministries' business plans; public consultation with client groups, including using a web site to seek the public's views; and the introduction of a summary of business plan commitments in the document <i>Making Progress, Managing Change: A Report to Ontario Taxpayers</i>, which is a compilation of the key themes from the business plans.</p>

COMMISSION RECOMMENDATION	GOVERNMENT RATIONALE FOR NOT IMPLEMENTING
<b>III. CROWN AGENCIES</b>	
<b>C. Recommendations Specific to Agencies</b>	
<b><i>Development Corporations of Ontario</i></b>	
III.13 That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario be classified as a service organization.	The government announced plans in 1995 to wind down the Development Corporations. The reporting of operations during the wind down period remains on a consistent basis with prior years.
<b><i>Ontario Clean Water Agency</i></b>	
III.19 That government consider granting OCWA [Ontario Clean Water Agency] more management and administrative flexibility to allow it to operate more competitively.	<p>In 1996, OCWA was restructured to provide the flexibility for it to operate on a more business-like basis. Bill 107, the <i>Water and Sewage Service Improvement Act</i>, provided for a transfer of title to 230 water/wastewater facilities to municipalities. This transfer, which is currently in process, will be complete by Dec 31, 1999. OCWA now has to compete with other providers of operating and maintenance services to municipalities.</p> <p>Financing and building of water/wastewater facilities, and administration of the Municipal Assistance Capital Subsidy Program (MAP), which were formerly undertaken by OCWA, are now being done by the Ministry of the Environment.</p> <p>The Office of Privatization and the Ministry are currently reviewing the options for the future role and mandate of OCWA.</p>

*Sources: OFRC Report, Ministry of Finance and Management Board Secretariat*