

## Section I: Fiscal Transparency and Accountability

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The government is committed to enhancing transparency and accountability. It has taken a number of key actions in this area.

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### ENHANCEMENTS IN TRANSPARENCY AND ACCOUNTABILITY

- The Fiscal Transparency and Accountability Act (FTAA) has set new standards for how the Province plans to allocate resources, and how and when it presents financial reports to the people of Ontario.
  - In October 2005, the government issued the first-ever long-range assessment of Ontario's fiscal and economic environment, *Toward 2025: Assessing Ontario's Long-Term Outlook*.
  - For the first time, the Ontario Government will produce a pre-election fiscal report, which will be reviewed by the Auditor General.
  - The government has expanded the Auditor General's authority to carry out value-for-money audits of organizations receiving government funds to deliver front-line services.
  - The government has begun consultations on a new Public Service Act. This initiative seeks to embed in legislation the fundamental principles of public service: accountability, merit, non-partisanship and professionalism, and to provide a strong ethical framework for public servants.
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### CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES INTO THE PROVINCE'S FINANCIAL RESULTS

In this Budget, the government is implementing another major change in the way that the finances of the Province are reported to the public. For the first time, the Province's financial reporting in the Budget includes the financial results of three important public-sector partners — hospitals, school boards and colleges of applied arts and technology. Consistent with revised government accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), the government will also introduce this expanded information into the Province's Public Accounts when they are published later this year.

The Auditor General of Ontario fully supports the inclusion of hospitals, school boards and colleges in this 2006 Budget:

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“...We support the inclusion of these broader public sector entities in the summary financial statements of the Province.... In my opinion, inclusion of colleges, school boards and hospitals in the 2006 Budget will facilitate the comparison of actual results to budgeted results which is an essential ingredient of fiscal public accountability.”

*Letter from the Auditor General of Ontario dated March 9, 2006.*

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The government first announced in the 2004 Budget that it would include hospitals, school boards and colleges in the Province's financial statements on a "one-line" basis starting with the 2005–06 Public Accounts and the subsequent (2007) Budget. By including these entities in the 2006 Budget, the government has advanced that timing by one year, making it easier to compare the 2006 Budget with the 2005–06 Public Accounts published later this year.

The government is also taking a major step towards improving the timeliness of the Province's financial reporting by tabling its 2006 Budget in advance of the start of the 2006–07 fiscal year. Earlier budgets and medium-term outlooks provide our transfer partners with more certainty to facilitate their own planning. The government also plans to advance the date of tabling the 2005–06 Annual Report and Consolidated Financial Statements this year. By providing more comprehensive, comparable and timely financial reporting, the government is further enhancing transparency and accountability.

## **WHAT DOES CONSOLIDATING HOSPITAL, SCHOOL BOARD AND COLLEGE SPENDING INVOLVE?**

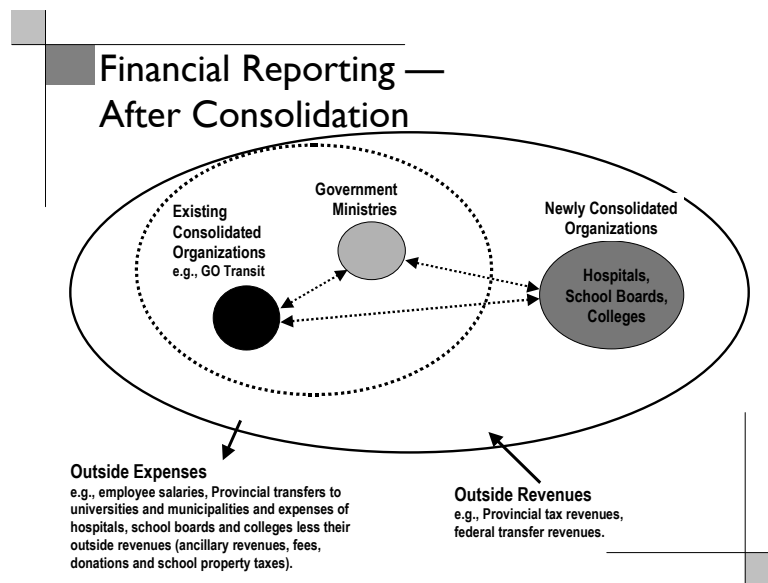
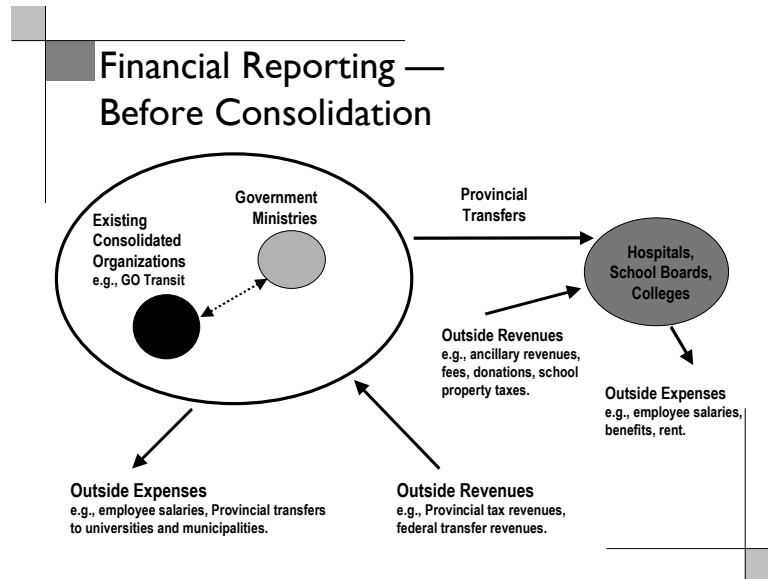
The addition of hospitals, school boards and colleges to the Province's books recognizes that these sectors receive most of their funding from the taxpayers of Ontario.

In order to include the financial results of the hospital, school board and college sectors, the government has changed the definition of the Province's expenses in this Budget in accordance with PSAB standards.

- Previously, the Budget recorded the Province's operating and capital grants to these sectors as expenses. Starting with the 2006 Budget, the government is replacing that approach by including the net expenses of these three sectors in its provincial expenses.
- This is being done to reflect fully the portion of the sectors' expenses that provincial taxpayers are responsible for supporting.
- Net expenses are calculated as the operating costs and depreciation of the sectors' assets less any revenues they receive from sources other than the Province. Another way of looking at it is that net expenses represent the total provincial operating and capital grants being provided to the sectors plus or minus their deficits or surpluses.

The Province depreciates its capital assets over the years they provide service to the public. Because hospital, school board and college sectors are now part of the Province's reporting entity, the capital funding that the Province provides to these sectors will also now be depreciated over the service lives of their assets instead of being treated as a capital grant expense in the year paid.

These accounting changes do not affect the government's funding for these sectors. Likewise, these changes do not affect the governance of these sectors nor the sectors' ownership of assets.



# IMPLICATIONS OF CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES ON THE PROVINCE'S FINANCIAL PRESENTATION

The PSAB standards provide the criteria for determining whether organizations should be included in the government's financial statements.

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## PUBLIC SECTOR ACCOUNTING BOARD STANDARDS

- The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is the independent accounting authority setting accounting and financial reporting standards for governments in Canada. The Province adheres to these standards.
- In August 2003, PSAB issued a new accounting standard that established criteria for determining which public-sector organizations should be included in a government's financial statements, starting with the 2005–06 Public Accounts.
- In his 2003 Annual Report, the Auditor General of Ontario noted that, in accordance with this new PSAB standard, Ontario's school boards and colleges may warrant inclusion in the Province's financial statements but universities should not be included. It was also recommended that the government complete its own assessment to determine whether health care organizations should be included. The Province's assessment concluded that, consistent with most other provincial jurisdictions in Canada, hospitals, school boards and colleges should be included in the government's financial statements.

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Prior to the 2006 Budget, the government's financial statements included government ministries, government organizations (e.g., GO Transit and Ontario Place) and government business enterprises (e.g., Liquor Control Board of Ontario (LCBO) and Hydro One). With this Budget, the Province's financial statements have been expanded to include the 155 public hospitals including three specialty psychiatric hospitals, 104 school boards and school authorities, and 24 colleges in the province.

With the inclusion of hospital, school board and college sectors in the Province's financial statements, the financial statement presentation in this Budget has changed:

- to highlight that the spending of these sectors is being supported by Provincial revenues, the net expenses of hospital, school board and college sectors are presented on separate lines. Previous budgets included the grants to these sectors as part of the relevant ministry's program and capital spending;
- as most of the Province's capital spending is now being accounted for as capital investments and depreciated over the years that the investments are providing service to the public, the financial presentation of capital has also changed:
  - as depreciation is an ongoing annual expense, the capital expense table has been combined with the operating expense table into a total expenses table, consistent with the presentation in the Province's Public Accounts;
  - the schedule of net investment in capital assets table has been removed;

- the gross capital investment table has been restructured into an infrastructure expenditures table; and
- the assets of these sectors, less their liabilities, are recorded on the Province's balance sheet, reducing its accumulated deficit.

## **IMPLICATIONS FOR TRANSPARENCY AND ACCOUNTABILITY**

Enhanced financial reporting makes it easier for Ontarians to see how their tax dollars are being spent. In prior years, if a broader public-sector organization such as a hospital or school board spent more or less than the total grants and non-Provincial revenue it received, this overspending or underspending was not recorded in the government's financial reports. Only if the government provided grants to the organization to cover deficits was it shown as a provincial expense.

Under the enhanced financial reporting, any sector overspending or underspending compared to their planned net expense will be disclosed in the Province's financial statements and impact its bottom line. As such, the financial performance of the sectors and its impact on the Province's finances will now be transparent to the readers of the Province's financial reports by comparing the sectors' actual net expenses to those planned for the year.

With this revised accounting, if the hospital, school board or college sectors' spending results in a higher or lower net expense than what was planned, this will now affect the Province's fiscal results and will create a risk that the Province will not achieve its targets. While this is not a new risk, the enhanced financial reporting better reflects this risk in Ontario's financial statements.

## **IMPACT OF CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES**

The basic impact of consolidation is that the deficits/surpluses of the hospital, school board and college sectors are added to/subtracted from the provincial grant expenses. The deficits/surpluses of the sectors are composed of:

- deficits/surpluses resulting from their operating activities (i.e., operating revenues less operating expenses); and
- deficits/surpluses resulting from their capital activities (i.e., capital revenues less amortization of capital).

This impact is estimated to be a \$32 million increase in expense in 2005–06 and a \$104 million decrease in expense in 2006–07. The following table shows detailed impact by sector of the consolidation on the Province's expenses for 2005–06 and 2006–07.

**IMPACT OF CONSOLIDATION  
(\$ MILLIONS)**

	2005–06 Interim			2006–07 Plan		
	Operating and Capital Grants	Sector Deficit/ (Surplus) <sup>1</sup>	Sector Net Expense	Operating and Capital Grants	Sector Deficit/ (Surplus) <sup>1</sup>	Sector Net Expense
Hospitals	13,979	82	14,061	14,733	(20)	14,713
School Boards	10,758	–	10,758	11,228	(46)	11,182
Colleges	1,308	(50)	1,258	1,397	(38)	1,359
		32			(104)	

<sup>1</sup> Includes impact of depreciation of capital and consolidation accounting adjustments.

In calculating the surpluses and deficits of the sectors, adjustments are made to their financial results before including them in the Province’s financial statements to eliminate double-counting and to make sure that they are consistent with the government’s accounting practices. These adjustments are in accordance with PSAB standards.

## CONSOLIDATION ACCOUNTING ADJUSTMENTS

### Adjustments to Avoid Double-Counting:

#### Year-End Cut-Off Differences

- The Province may record an expense as payable in one fiscal year, but a sector organization does not record the receivable as revenue until the following year. The net expenses of the sector would be adjusted to record the revenue in the same year it is received from the Province.

#### Non-Reciprocal Accounting Treatments

- The Province provides funding for capital investment purposes. While the Province accounts for this funding as an expense in the year that it is transferred to the organization, the colleges and hospitals do not record the transfers as revenues in the year received but amortize them over future years. The net expenses of these sectors are adjusted to record this revenue in the year it is received to reflect the amortization of capital investments over the years that they provide service to the public.

### Accounting Consistency Adjustments:

#### Fiscal Year-End Differences

- School boards have an August 31 year-end, whereas the Province has a March 31 fiscal year-end. The school boards’ net expenses are adjusted to the Province’s fiscal-year basis.

#### Accounting for School Boards’ Capital Assets

- Under their present accounting practices, school boards do not record capital assets in their financial statements. However, the Province and other sectors do record capital assets in their books. Therefore, the net expenses of school boards are adjusted upon consolidation to record their capital assets and the depreciation of these assets.

## SIMPLIFIED EXAMPLE OF A CONSOLIDATION

### Assumptions:

- The Province provides an organization with \$50 million in operating grants and \$20 million in capital grants for the year. Total provincial grants are \$70 million.
- The organization includes \$70 million from provincial grants in revenue and \$10 million in third-party donations (outside revenues) in revenues, for total revenues of \$80 million.
- The organization reports \$70 million in operating expenses and \$15 million in expenses for depreciation of its capital assets, for total expenses of \$85 million.
- The organization has a deficit of \$5 million resulting from expenses of \$85 million less total revenues of \$80 million.

### Pre-Consolidation Expenses Budgeted in Prior Years

The provincial budget on a pre-consolidated basis included operating grants of \$50 million and capital grants of \$20 million, for a total of \$70 million in expense for the year.

### Post-Consolidation Expenses Budgeted Starting with the 2006 Budget

The consolidated 2006 Budget excludes the \$50 million in operating grants and the \$20 million in capital grants from the ministry's program expenses. Instead, the Budget includes the net expenses of \$75 million (\$85 million in expenses less \$10 million in outside revenues) on a separate line. Another way of looking at it is that net expenses equals provincial grants of \$70 million plus the organization's deficit of \$5 million.

### Impact of the Consolidation

In this example, the Province's expense increased by \$5 million. This increase is composed of:

- the organization's operating deficit of \$10 million (the organization's operating expenses of \$70 million less their operating revenue of \$60 million), reduced by:
- the capital impact of \$5 million that results from the change in accounting from capital grant expense of \$20 million to the organization's depreciation expense of \$15 million.

The following table illustrates these results.

IMPACT OF CONSOLIDATION (\$ MILLIONS)						
Pre-Consolidation				Post-Consolidation	Expense Impact	
	Organization's Books		Province's Books	Province's Books	Increase/(Decrease)	Province's Books
	Revenues	Expenses	Expenses	Expenses		
Capital	20	15	20	15		(5)
Operating	50	70	50	70		20
Outside Revenue	10	-	-	(10)		(10)
Net Operating	60	70	50	60		10
Total	80	85	70	75		5
	Deficit 5		Grant Expenses 70	Net Expenses 75		5

## CHANGES IN FINANCIAL PRESENTATION

The following table summarizes how the adjustments described previously will affect the expenses presented in Table A4 of the 2006 Budget and how it compares to the expense tables in previous budgets.

In the following table, the first column reports the 2006–07 operating information in the format that it would have been reported in Table A4 in the 2005 Budget. The second column reports 2006–07 capital information as it would have been shown in Table A5 in the 2005 Budget. The fourth column shows the adjustments reflecting the consolidation of hospitals, school boards and colleges into the Province’s financial statements. The fifth column sums all of this information into a total line, which is the amount reported in Table A4 of this Budget.

In other words, Table A4 of this Budget captures the information that was presented in the operating and capital expense tables in prior years, adjusted for the consolidation of hospitals, school boards and colleges. This revised presentation is now consistent with Schedule 3 in the Province’s Public Accounts.

Since most of the Province’s capital spending is now being accounted for as investments in capital assets and depreciated or charged to annual expense over the years that these assets provide service to the public, the capital investment tables presented in previous years have also been revised in the Budget.

The table on the Gross Capital Investment (Table A7 in the 2005 Budget) has been restructured into the table on Infrastructure Expenditures — Table A5 in this Budget. The “Total Infrastructure Expenditures” column (column four) in the revised table contains the capital expenditures on the Province’s tangible capital assets, and grants for capital purposes to public-sector entities that have been provided in the Gross Capital Investment Table in previous budgets. In addition, this column, for the first time, reflects grants to school boards and long-term care homes to service the financing of their capital assets. In the 2005 Budget, grants to school boards and long-term care homes were part of the operating expenses.

Furthermore, the “Total Infrastructure Expenditures” column in Table A5 is divided into two major categories (presented in columns two and three of the Infrastructure Expenditures table):

- those infrastructure expenditures, in the second column, that are invested in capital assets and amortized to the Province’s annual expenses over future years. These expenditures are not included in the current-year expenses. Instead, only the amortized portion related to the current year is included in 2006–07 expenses reported in Table A4; and
- those infrastructure expenditures, in the third column, as adjusted for consolidation, that are included in the Province’s current-year expenses in Table A4.



Consistent with the revised Total Expense Table (Table A4 in this Budget), the new Table A5 also identifies separately hospital infrastructure expenditures from other health expenditures and breaks out the school board and college sector expenditures from the other education expenditures on universities.

The interim 2005–06 results (column one) in the Infrastructure Expenditure Table is the Gross Capital Investment Table presented in the 2005 Budget, restated and updated in order to compare 2005–06 interim results with the 2006–07 plan.

Lastly, with the introduction of the new Infrastructure Expenditures Table A5, the Schedule of Net Investments in Capital Assets Table included in previous budgets has been removed. The information on the acquisition and amortization of major tangible capital assets previously shown in this table is presented in the 2005–06 Borrowing Program Table presented in Paper D, *Borrowing and Debt Management*.

## 2006–07 ILLUSTRATION OF CHANGES IN EXPENSE PRESENTATION (\$ MILLIONS)

Ministry	2006–07 Before Consolidation <sup>1</sup>			2006–07 After Consolidation <sup>2</sup>	
	Operating	Capital	Total	Impact of Consolidation	Plan 2006–07
Agriculture, Food and Rural Affairs	607	273	880	–	880
One-Time and Extraordinary Assistance	16	–	16	–	16
Attorney General	1,234	67	1,301	–	1,301
Board of Internal Economy	169	–	169	–	169
Children and Youth Services	3,244	20	3,264	–	3,264
Citizenship and Immigration <sup>3</sup>	144	–	144	(53)	91
Community and Social Services	7,007	38	7,045	–	7,045
Community Safety and Correctional Services	1,841	46	1,887	–	1,887
Culture	304	62	366	–	366
Democratic Renewal Secretariat	10	–	10	–	10
Economic Development and Trade	351	–	351	–	351
Education	11,603	10	11,613	(11,175)	438
School Boards <sup>4</sup>	–	–	–	11,182	11,182
Teachers' Pension Plan (TPP)	408	–	408	–	408
Energy	188	41	229	–	229
Environment	273	29	302	–	302
Executive Offices	19	–	19	–	19
Finance – Own Account	1,056	4	1,060	–	1,060
Interest on Debt	9,429	–	9,429	–	9,429
Ontario Municipal Partnership Fund	731	–	731	–	731
Power Purchases	988	–	988	–	988
Contingency Fund	995	–	995	–	995
Government Services	718	18	736	–	736
Pension and Other Employee Future Benefits	594	–	594	–	594
Health and Long-Term Care	34,677	384	35,061	(14,733)	20,328
Hospitals <sup>4</sup>	–	–	–	14,713	14,713
Health Promotion	334	29	363	–	363
Intergovernmental Affairs	9	–	9	–	9
Labour	150	–	150	–	150
Municipal Affairs and Housing	628	65	693	–	693
Natural Resources	622	60	682	–	682
Northern Development and Mines	114	233	347	–	347
Office of Francophone Affairs	4	–	4	–	4
Public Infrastructure Renewal	32	82	114	–	114
Contingency Fund	–	175	175	–	175
Research and Innovation	262	83	345	–	345
Secretariat for Aboriginal Affairs	18	3	21	–	21
Tourism	130	31	161	–	161
Training, Colleges and Universities	5,233	40	5,273	(1,397)	3,876
Colleges <sup>4</sup>	–	–	–	1,359	1,359
Transportation	1,124	819	1,943	–	1,943
Move Ontario	–	6	6	–	6
Year-End Savings	(550)	(150)	(700)	–	(700)
<b>Total</b>	<b>84,716</b>	<b>2,468</b>	<b>87,184</b>	<b>(104)</b>	<b>87,080</b>

<sup>1</sup> Reflects 2006-07 plan as it would have been presented had the Province not consolidated hospitals, school boards and colleges.

<sup>2</sup> Consolidation refers to the consolidation of hospitals, school boards and colleges.

<sup>3</sup> Adult English-as-a-Second Language transfer payments from the Ministry of Citizenship and Immigration to school boards, are on consolidation included in school-board net expenses.

<sup>4</sup> Represents net expenses.