Intelligence MEMOS

From: William B.P. Robson

To: Ontario MPPs

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Re: **Legislating fiscal accountability and transparency – what might work?**

The government of Ontario's fiscal position is not healthy. Its financial statements for the 2017/18 fiscal year passed muster with the provincial Auditor General – a welcome change after two years of objections to the accounting. But the cleaned-up books underlined the province's excessive debt, and the scale of the task required to fix it.

Ontario's 2004 *Fiscal Transparency and Accountability Act* (FTAA) requires balanced budgets except under explicitly identified extraordinary circumstances, and prudent levels of debt. Yet it failed to prevent the excesses of the past decade. Last summer's Independent Financial Commission of Inquiry recommended reviewing the FTAA, and Finance Minister Vic Fedeli's fall statement committed to do so. What improvements can we realistically expect?

To be clear, no legislation can substitute for diligence and courage from legislators and citizens. We cannot anticipate every contingency, accounting change, or innovation in thinking about what governments can and should do. Rigidly constraining future legislatures by mapping out every possible response to circumstances, will create a framework too brittle to last or too complex to be effective. But we can help future legislators and citizens by ensuring that the information they get is timely, understandable, and reliable.

As the C.D. Howe Institute's fiscal accountability report emphasizes, some key steps are simple. Governments should present their budgets before the April 1 start of the fiscal year. A set date in late February, to which British Columbia has committed, helps governments and stakeholders plan. MPPs should also receive the spending estimates they will vote at the same time – and certainly before money for the year starts flowing. Timely final, audited financial statements, part of the province's public accounts, also matter – no more than three months after the March 31 end of the fiscal year, as required in Alberta, makes sense.

In budgets, estimates and financial statements alike, the key numbers – total revenue, total expense, the balance, and the resulting change in the province's net worth – should appear prominently in the opening pages. Periodic interim reports showing progress and year-to-date results should follow the same format.

Legislation can also usefully define responsibilities for scrutinizing and approving financial reports. Ontario has a Financial Accountability Officer and an Auditor General, but MPPs themselves must be on the front line. The Standing Committee on Public Accounts can play a key role in scrutinizing all fiscal documents, and checking the consistency of the government's actions with its budget plans.

When it comes to measures of fiscal soundness, rigid prescriptions won't work, but intelligent metrics can also help legislators do their jobs and citizens monitor the results.

One critical one is the accumulated deficit, a measure highlighted by the Public Sector Accounting Standards, and to which Ontario is happily now conforming. This is a familiar measure of net worth: assets minus liabilities – and is the focus of the current FTAA. Budget deficits make it worse, and the budget surpluses we hope to see again would make it better.

Net debt is another key measure. It excludes non-financial assets, and is thus equal to the accumulated deficit and the province's net investment in capital assets. Net debt is particularly interesting to credit rating agencies and people concerned about the province's ability to meet its financial obligations. Net debt, and the interest owing on it, can rise even when the budget is in surplus when the province borrows to finance capital spending – a major concern in Ontario lately.

A third useful measure of fiscal soundness would compare the province's net interest costs – debt service minus income from its financial assets – to its tax base. Actual interest paid takes account of changes in interest rates – a big deal for a heavy debtor – and the tax base is better than a more abstract number such as GDP as an indicator of the province's ability to meet its obligations.

Highlighting these measures in budgets and financial statements, and showing how they may evolve in coming decades, would give legislators and citizens valuable context for their fiscal decisions.

No magic wand can fix Ontario's fiscal position or prevent future governments digging deeper holes. Legislators and citizens must always do their part. A revised FTAA can help them with information that is more timely, understandable, and meaningful. And in fostering sound public finances, we need all the help we can get.

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