

FAO

Financial
Accountability
Office of Ontario



2017-18

ANNUAL REPORT



2 Bloor Street West, Suite 900
Toronto, Ontario M4W 3E2

416-644-0702

fao-on.org

info@fao-on.org



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ISSN 2369-4289 (Print)

ISSN 2369-4297 (Online)

This document is also available in an accessible format and as a downloadable PDF at fao-on.org

Cover Illustration by Katemangostar - Freepik.com

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“The FAO welcomes requests from MPPs about any economic or financial matter.”

Officer's note

It is an honour to introduce myself as Ontario's new Financial Accountability Officer. I bring over nine years of experience working for the federal Parliamentary Budget Officer. I am eager to put that experience to work in support of the Legislative Assembly, Members of Provincial Parliament and their staff.

I have inherited a terrific team. Although this past year was a period of leadership transition for the office, the team has prepared a remarkable set of reports that have provided MPPs and Ontarians with insight into economic and financial issues before the Assembly.

Through its regular reports, the office provided Members of Provincial Parliament (MPPs) with medium-and long-term economic and fiscal projections, as well as a more in-depth look at medium-term health spending projections. These reports support MPPs in their scrutiny of the government's fiscal plan.

On the FAO's initiative, as the Assembly was considering wide-ranging amendments to employment law, the office provided MPPs with analysis of the economic impact of increasing the minimum wage.

At the request of MPPs, the office provided the Assembly with detailed analysis of three aspects of Ontario's electricity policy:

the Fair Hydro Plan, the refurbishment of reactors at nuclear generating stations, and the partial sale of Hydro One.

I welcome requests from MPPs and committees for my office to undertake research into economic and financial matters. I also welcome opportunities to appear before committees to discuss my office's work and any bills or substantive inquiries related to my office's mandate.

In 2018-19, I plan to meet with MPPs to better understand their needs and how the office can best support their work. As I look back on the office's activities in its first three years of operations, I note that there are some gaps in the support that the office provides to the Assembly, which I intend to fill over the course of my five-year term.

For example, using the office's regular report on health spending projections as a model, the office will prepare reports on trends in other major areas of provincial spending. These reports will support

MPPs and the members of the Standing Committee on Estimates in their scrutiny of the government's expenditure estimates.

Finally, our office will invest additional time and resources in deepening our analytical capacity and improving our operational effectiveness. To that end, we will continue to hone our existing analytical models and build or acquire new ones. We will continue to develop partnerships with subject matter experts so that they can provide assistance and serve as peer reviewers as necessary to

ensure that our analytical methodologies are sound and our conclusions reasonable. We will also review our own internal processes with a view to enhancing our effectiveness in delivering the FAO's mandate with the resources entrusted to us by Ontarians.

This report will provide an overview of the FAO's mandate and key operating considerations, along with a summary of the office's work in the 2017-18 fiscal year.

Mandate and activities

The Financial Accountability Officer (FAO) is an independent officer of the Legislative Assembly. The FAO's role is to support MPPs by providing them with the economic and financial analysis. MPPs can use the FAO's analysis as they contribute to the Assembly's performance of its constitutional functions.

The FAO is mindful of the importance of avoiding duplication of work done by other officers of the Assembly, including the Auditor General and the Environmental Commissioner, as well as the Legislative Library and Research Services. The FAO coordinates with his fellow officers and the Legislative Library to maximize the support that MPPs receive.

The FAO strives to ensure that the office's analysis is timely, relevant and authoritative. To that end, the FAO publishes regular reports, standalone reports, backgrounders and commentaries.

Regular Reports

The FAO produces a series of regular, self-initiated reports. These reports serve as a baseline against which MPPs can scrutinize the government's fiscal plan and policy proposals.

In 2017-18, the FAO published its fall and spring Economic and Budget Outlook (previously known as the Economic and Fiscal Outlook) reports, which present the

office's medium-term economic and fiscal forecast and aim to assist MPPs in their scrutiny of the government's budget and fall economic statement. The next EBO is scheduled for release in fall 2018.

The FAO also released the office's first Long-Term Budget Outlook which identifies the long-term challenges of the province's current fiscal structure as Ontario's population ages over the next three decades. The FAO plans to publish the Long-Term Budget Outlook every two years. The next LTBO is scheduled for release in fall 2019.

In 2017-18, the FAO also published an analysis of the province's medium-term health spending projections, updating a report published in 2016-17. This report will serve as a model for the office's future work examining the economic and demographic factors which drive other major areas of provincial spending, such as education and social services.

Standalone reports

The FAO produces standalone reports. These reports aim to provide MPPs with an in-depth analysis of a particular economic or financial matter.

These reports normally respond to a request made by an MPP or a committee, but they can also be self-initiated.

Standalone reports tend to take longer to prepare and are more resource intensive than the FAO's regular reports. They can serve as authoritative reference material for MPPs and their staff.

In 2017-18, the FAO published three standalone reports, each of which was requested by an MPP, examining different aspects of Ontario's electricity sector:

- fiscal impact of the province's Fair Hydro Plan;
- financial risks of the refurbishment of the province's nuclear generating stations;
- financial analysis of the partial sale of Hydro One (providing an update on the FAO's original report, which was published in 2015-16).

Commentaries & Backgrounders

The FAO's commentaries and backgrounders are concise and timely analyses of current financial and economic issues or specific aspects of the government's finances relevant to MPPs. Backgrounders and commentaries are self-initiated.

In 2017-18, the FAO published backgrounders and commentaries on:

- the economic impact of increasing the minimum wage;
- the province's revenue projection;
- the province's debt reduction commitment;
- changes to Ontario's service fees;
- Ontario's household debt and financial vulnerability; and
- Ontario's labour market performance.

Use of the FAO's work

One of the more visible forms of the FAO's support to MPPs is the use of the FAO's published work to inform MPPs' debate.

In 2017-18, the FAO and the office's work were mentioned 476 times in debate in the Assembly and 85 times in committee meetings for a total of 561 references. This represents a significant increase over the 376 mentions in 2016-17 and 64 in 2015-16.

Requests from MPPs and committees

Both MPPs and committees can request that the FAO undertake specific research. Under the FAO's statutory mandate, such requests can relate to trends in the provincial and national economies, the state of the province's finances, the government's estimates or the financial impact of a bill or other policy proposal.¹

In 2017-18, the FAO received nine research requests from MPPs; the FAO did not receive any requests from committees.

The FAO would welcome requests from committees for research assistance when they are either studying bills or conducting substantive inquiries that relate to the FAO's mandate.² The FAO would also be pleased to appear before a committee to discuss the research assistance the office could provide.

The FAO has the authority to refuse research requests³ and has developed principles to guide him with this. These principles are available on the website.⁴ Generally speaking, the FAO prioritizes requests that are likely to be relevant to

the most MPPs and that will assist the Assembly in performing its constitutional functions, particularly scrutinizing the government's proposals and holding the government to account for their implementation.

Once the FAO accepts a request, the FAO will prepare a standalone report for release, which the FAO will make available to all MPPs at the same time.

The FAO receives and considers requests confidentially. The FAO will not reveal the identity of the requesting committee or MPP. The committee or the MPP will, however, be free to identify themselves as the requester of the research.

¹ *Financial Accountability Officer Act, 2013*, SO 2013, c 4, s 10(1)(b) [FAO Act].

² *Ibid*, s 11(1) (conferring an explicit mandate to provide assistance to the Standing Committee on Finance and Economic Affairs).

³ *Ibid*, s 10(2).

⁴ http://fao-on.org/en/Research_requests.

Self-initiated analysis

The FAO has discretion to initiate economic and financial analysis in support of MPPs.⁵ Over the course of the office's first three years in operation, the FAO initiated a set of regular reports intended to provide MPPs with the means to scrutinize the government's fiscal plan. These reports help fulfill the FAO's mandate to provide the Assembly with an independent analysis of the state of the province's finances and trends in the provincial and national economies.

The FAO will initiate a standalone report or a commentary when:

- the government proposes a policy that will ultimately come before the Assembly in some form or a minister of the Crown introduces a bill in the Assembly and;
- in the FAO's judgment, that policy or bill may have a significant impact on either the province's finances or economy.

As is clear from the debates concerning the establishment of the office, MPPs saw it as the core of the FAO's mandate to provide forward-looking economic and financial analysis of government proposals and bills.

This is especially important because there is relatively limited independent, impartial analysis available for many of these proposals and bills. Such analysis is relevant to opposition and government MPPs alike as they play their complementary roles in our parliamentary system of government.

⁵ FAO Act, s 10(1)(a).

Independence

The FAO and his employees must be independent from influence by the government of the day in order to provide the Assembly with impartial and nonpartisan analysis.

The FAO and his employees must also have sufficient education, training and experience to ensure that the work is credible and authoritative.

Several provisions of the Financial Accountability Officer Act, 2013 work in concert to bolster and protect the FAO's independence, impartiality and professionalism.

The FAO is an officer of the Assembly.⁶ The proposed FAO must first be approved by a panel of MPPs drawn from each recognized party, chaired by the Speaker, and then the FAO's appointment must be formally requested by the Assembly.⁷ This ensures that all recognized parties in the Legislative Assembly are involved in the FAO's appointment.

The FAO's salary and expenses, as well as the office's budget and staffing levels

are approved by the Board of Internal Economy.⁸ Since the Board is made up of at least one member from each recognized party, its involvement ensures multi-party support for changes to the resources available to the FAO.

The FAO serves for a fixed, five-year term and can be reappointed for one additional five-year term.⁹ The FAO can only be removed for cause at the formal request of the Assembly.¹⁰ The FAO is also barred from holding any other employment that would conflict with the performance of his duties.¹¹

The FAO enjoys statutory protection against political interference and obstruction.¹²

⁶ *Ibid*, s 2(1).

⁷ *Ibid*, s 2(2).

⁸ *Ibid*, ss 3, 5, 8(1).

⁹ *Ibid*, s 2(3).

¹⁰ *Ibid*, s 2(4).

¹¹ *Ibid*, s 2(5).

¹² *Ibid*, s 18.

Access to information

The FAO needs access to government information to be able to prepare economic and financial analysis in support of the Legislative Assembly.

Without access to such information, it would, at a minimum, be more costly and time-consuming for the office to prepare its analysis. The office would need to recreate work already prepared in ministries and public entities. However, in some cases, the FAO might not be able to perform certain types of analysis without access to internal government information.

Ministries and public entities have a statutory duty to provide the FAO with information that the FAO believes necessary to perform his mandated duties, subject to only limited exceptions.¹³ In October 2016, the Lieutenant Governor in Council made an order, which requires that ministries and public entities provide the FAO with access to information contained in certain Cabinet records.¹⁴

The order-in-council, combined with ministries and public entities' improved understanding of their duty to provide the FAO with information, has helped ensure that the FAO has access to the information the office needs.

In 2017-18, the FAO made 11 information requests of ministries and public entities. In each case, the ministry or public entity provided all the information requested by the FAO.

The October 2016 order-in-council applies to all records concerning the Executive Council (Cabinet) presided over by former Premier Kathleen Wynne and remains in force. Because of the statutory authority under which it was made,¹⁵ the order does not apply to previous or subsequent Executive Councils.

In July 2018, the Lieutenant Governor in Council made a new order, which ensures the FAO's continued access to information contained in Cabinet records and preserves the office's ability to provide MPPs with timely and relevant analysis in a cost-effective manner. The order applies to all records concerning the current Executive Council, which took office on June 29, 2018.

¹³ *Ibid*, s 12(1), (2), (3).

¹⁴ OC 1412/2016.

¹⁵ *Freedom of Information and Protection of Privacy Act*, RSO 1990, c F.31, s 12(2)(b); FAO Act, s 12(2).

Disclosure of information

As the FAO has gained access to a wider range of information under the order-in-council, the restrictions on the FAO's disclosure of government information have taken on greater importance in the office's activities.¹⁶

In 2017-18, in all but one of their responses to the FAO's information requests, ministries and public entities informed the FAO that the information they were providing was subject to certain disclosure restrictions.

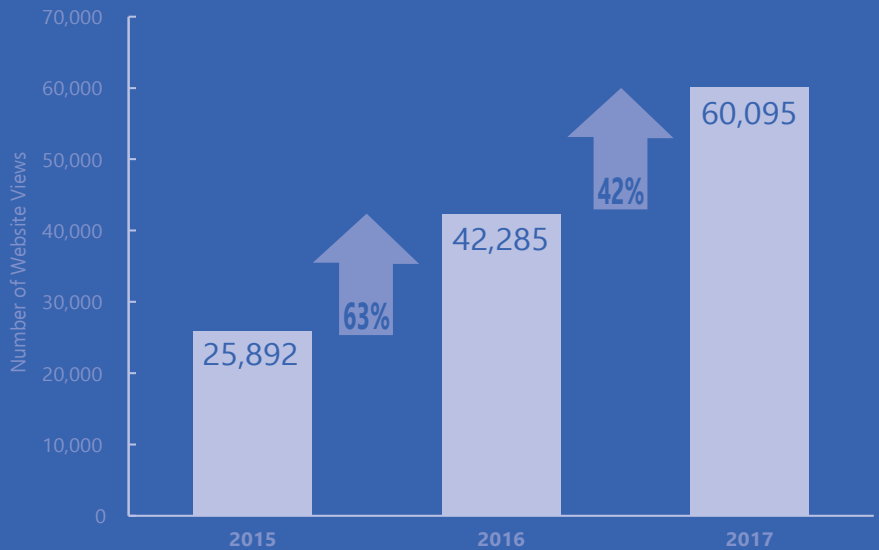
The FAO has put in place an internal process to safeguard and avoid disclosing information subject to these restrictions. As part of that process, the FAO works closely with ministries and public entities to ensure that they provide the advice the FAO requires to comply with the disclosure restrictions.

¹⁶ FAO Act, s 13; OC 1412/2016, s 2.

THE YEAR IN REVIEW

561
mentions in the
LEGISLATURE

Website visitors by year



13 REPORTS
RELEASED

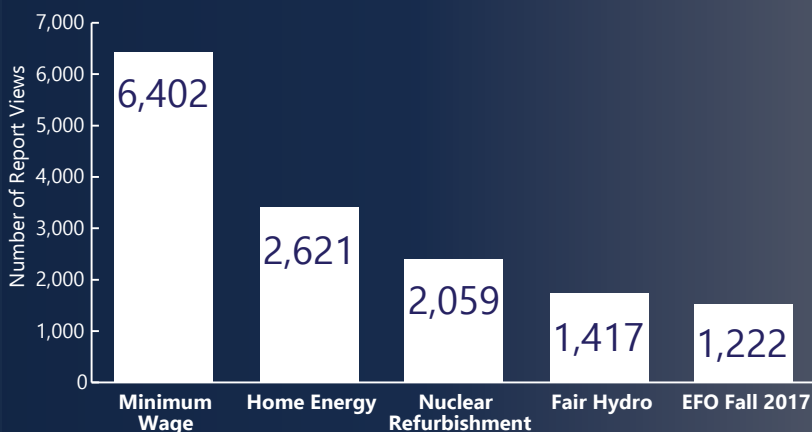
526  twitter followers

969
NEWS ARTICLES

9 RESEARCH
REQUESTS

60,095
WEBSITE HITS

Top reports of 2017-18



11
Information
REQUESTS

829
twitter
engagements

Budget and administration

The FAO's approved budget for 2017-18 was \$3,255,000; the actual spending for the fiscal year was \$2,530,239.

The office's approved staffing for 2017-18 was 20 full-time equivalent (FTE) positions. At the end of the fiscal year, the staffing complement was 14.5 FTEs, excluding the temporary FAO.

The FAO spent less than the office's approved budget in 2017-18. This was the result of two factors: the office is continuing to develop its operational model to ensure that it can provide the best support to the Assembly; and the office was operating on a caretaker basis from the previous FAO's resignation in September 2017 to the current FAO's appointment in May 2018. During the caretaker period, the office delayed hiring and initiating new research.

In 2018-19, the FAO intends to use the office's full approved budget and plans to hire additional employees to ensure that the office can continue to fully respond to the needs of MPPs.

Employees

The FAO has the power to hire employees for the office and, subject to statutory constraints, to determine their salaries, benefits and terms and conditions of employment.¹⁷ The FAO requires that staff not engage in other work that would interfere with their contribution to the FAO or detract from the impartiality of the analysis.

The FAO has staffed the office with employees who have both experience and advanced education in economics and/or finance. The FAO actively supports employees' pursuing professional development and provides opportunities for employees to share their expertise with MPPs, officials and peers.

In 2018-19, the FAO will seek a formal understanding with the Secretary of the Cabinet to allow secondments from the public service to the FAO and vice versa.

¹⁷ FAO Act, s 8(1), (2), (3).

Financial statement

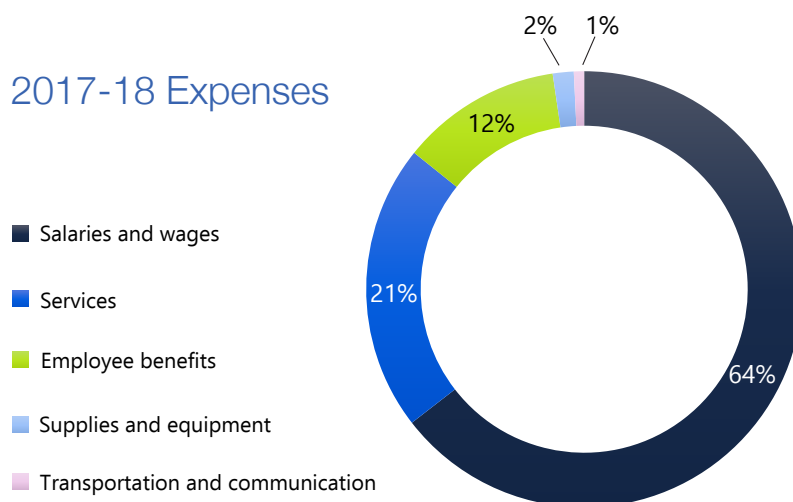
These figures are rounded to the nearest dollar and prepared on a modified cash basis. The audited figures for 2016-17 and 2015-16 are from the province's Public Accounts; the unaudited figures for 2017-18 are taken from the monthly financial statements prepared by the Office of the Legislative Assembly.

In 2017-18, the FAO spent less than anticipated on salaries, wages and benefits because the office's employee complement remained below the level approved by the Board of Internal Economy.

In 2017-18, the FAO spent less than anticipated on transportation and communication, services (including rent)

and supplies and equipment. This is largely the result of the office's lower than anticipated staffing, as well as the delays in building out the office's operations while the office operated on a caretaker basis.

2017-18 Expenses



	2017-18 Actual (Unaudited)	2016-17 Actual (Audited)	2015-16 Actual (Audited) ¹⁸
Appropriation	\$3,225,000	\$3,225,000	\$2,249,500
Expenditure			
Salaries and wages	\$1,632,231	\$1,749,177	\$943,763
Employee benefits	\$301,629	\$278,298	\$181,521
Transportation and communication	\$19,296	\$21,441	\$24,245
Services	\$537,827	\$510,091	\$678,927
Supplies and equipment	\$39,255	\$56,181	\$202,287
Total	\$2,530,239	\$2,615,188	\$2,030,743
Unused appropriation	\$694,761	\$609,812	\$218,757

¹⁸ The office incurred \$312,300 (net of HST) in leasehold improvement costs for the renovation of its office space during 2015-16. In accordance with the lease agreement, the landlord reimbursed these costs in 2016-17. As a result, the adjusted expense for services in 2015-16 was \$386,554, meaning that the FAO's adjusted total expense for that year was \$1,718,443, leaving an unused appropriation of \$531,057 for 2015-16.