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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Tuesday, June 14, 2016**

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**Chair**

**Mr. Tom Lukiwski**



## Standing Committee on Government Operations and Estimates

Tuesday, June 14, 2016

• (1540)

[English]

**The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)):** Ladies and gentlemen, I call the meeting to order. We are missing a couple of our colleagues, but I'm sure they will be here momentarily. We do have quorum, and it's a few minutes past our scheduled start time, so we will begin.

Welcome to the 22nd meeting of the Standing Committee on Government Operations and Estimates. We are studying estimates and budget.

Today we have officials from the Department of Finance here in Ottawa, as well as some of our friends and colleagues from across the sea, from the United Kingdom, who will be joining us via video conference.

I believe, Mr. Leswick, that you have a brief opening statement. We will have you begin, sir. Then once we have completed that, we'll go directly into questions and answers.

Go ahead, Mr. Leswick, please.

**Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance):** Thank you, Mr. Chair. Thanks for the opportunity to be here today.

My name is Nick Leswick. I am the assistant deputy minister of the economic and fiscal policy branch in Department of Finance Canada, with overall responsibility for economic and fiscal forecasting and the production of the federal budget.

I'm joined by Mr. Brad Recker, who is a senior chief in our fiscal policy division. His primary responsibilities are fiscal forecasting and the production of the federal budget as well. Hopefully, we can be useful in answering your questions over the next hour.

I do have a brief opening remark and I'll try to make it even more brief because I had some exposure to some of the considerations in the transcripts coming out of the committee, so I think you're well advanced in knowing the fundamentals and mechanics of the budget estimates and public accounts process.

It is a pleasure to speak with you today on the estimates process and specifically on opportunities to improve the functionality and transparency of the federal budgeting and reporting documents, which is a top priority for this new government.

As you know, the government's financial planning, approval, and reporting are carried out through three core documents: the budget, the estimates, and the public accounts. As you have been discussing,

there are a few key issues with respect to the alignment and functionality of these documents.

First, the government system of financial planning and reporting uses two different accounting bases; that is, the accounting basis for the estimates is different from both the public accounts and the budget, with the former being prepared on a near-cash basis and the latter two being prepared on an accrual basis under public sector accounting standards.

Because of the accounting variations, items such as capital assets, pensions, and liabilities—for example, legal and environmental liabilities—are reflected differently in the estimates than they are in the budget and the public accounts, or are not reflected at all.

A second key issue is that the estimates have a more narrow scope than the budget; that is, the estimates do not include some government spending—for example, spending coming from the employment insurance account; tax expenditures—that is, refundable tax credits; expenses by consolidated crown corporations; and revenues credited to the vote.

Lastly, there is a timing lag between the budget and the estimates documents. For example, estimates up to supplementary estimates (A) will not include all of the planned spending as laid out in the most recent budget. Thus, readers have a difficult time establishing clear linkages between the budget and estimates documents.

To facilitate the transparency and functionality of these documents, the government has recently introduced a reconciliation table in the most recent supplementary estimates (A) that attempts to bridge the expense plan presented in the budget with the cash authorities presented in the estimates.

In addition, it is also worthwhile to note that a very detailed reconciliation of expenditure authorities on a near-cash basis and final expenses recorded by departments and agencies on an accrual basis is published each year in volume II of the public accounts.

That said, it is clear that these documents remain difficult to use and understand. This government is keen to move the yardsticks forward on making the system better, and I would be pleased to answer any questions you may have.

**The Chair:** Thank you very much, Mr. Leswick.

Before we begin our questions, just for the benefit of our visitors from the U.K.—I'm sure our clerk has briefed you—we will be going into a seven-minute round of questions. We will have four questioners. There will be seven minutes for both the questions and the answers, please. We will then have a second round of five-minute questions and answers.

We'll begin with Madam Ratansi.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you to the U.K. counterparts. I'm sure it's quite late for you, 10 p.m. maybe. Thank you for being here.

We have been struggling with the issue of cash versus accrual, and it's only in estimates that we do not have accrual accounting. Our public accounts are accrual based and our budget is accrual based. Then we have these supplementary estimates that we're talking about.

You talked about variations and liabilities that are not recorded in the estimates, so when we are approving things as parliamentarians, we generally don't know what we are approving. We don't have the full picture, and I think this is a key in the link of fiscal accountability.

The question will be to the U.K., but I would like to hear from you first, and then I have questions for the U.K. people.

How do you make this process more transparent, more accountable, and easy to read? I know you're trying to do reconciliations, but those are all within the technical field, so how do you make it easy?

**Mr. Michael Sunderland (Acting Deputy Director, Government Financial Reporting, Her Majesty's Treasury):** Is that a question to the U.K.?

**Ms. Yasmin Ratansi:** No, this is a question to the Canadians.

Thank you. I'll ask you a question in a minute.

**Mr. Nicholas Leswick:** Thank you for the question, Mr. Chair.

How do you make it easy? Well...

**Ms. Yasmin Ratansi:** And I am an accountant by trade, so I can see this reconciliation mishmash.

**Mr. Nicholas Leswick:** Right, yes.

I don't know that it will ever be easy, to be quite honest. I think, quite frankly, you need to come to grips to some extent, both as a bureaucracy and as a parliamentary committee, with what the estimates are.

The budget effectively lays out the spending, the expense plan of the government, in its \$317 billion sum, while what the estimates do is to lay out an expenditure plan, on a cash basis, in the amount of \$251 billion, so it's not just a cash and accrual thing: already estimates are omitting a large chunk of what is in the government's spending plans.

The employment insurance account is the biggest one, but refundable tax credits such as the Canada child benefit, which is a flagship measure of this new government, are also not included in the estimates, so already it's not just a budget-estimates-timing

alignment thing. The universes of these documents are much different.

Then for that \$251 billion expenditure plan in the estimates, the vast majority of that is also statutory in authority. There are already preceding legal authorities that authorize the spending for those items, so you're left with the \$90 billion in cash authorities that are ultimately presented in the estimates, which seek approval of parliamentarians to go and spend that money.

The reconciliation is an attempt to explain that story, but the idea that there's a budget and then there are these estimates that approve the spending plans as laid out in the budget is an oversimplification, because only a fraction of those spending plans require cash authorities that haven't already been previously authorized. I don't think it's just a cash and accrual issue. I think it's also the universe of both documents.

• (1545)

**Ms. Yasmin Ratansi:** Then how does a place like Australia, or Alberta, which we'll be listening to.... The U.K. does that. Its estimates are on an accrual basis and its budgets are on an accrual basis, and then it has a very short time lag. How does it manage that? Perhaps once you hear the answer, then you will be able to help with understanding how we can make the system a little more transparent and accountable, because the C.D. Howe Institute, in grading our systems, doesn't give such a great grade to the federal government, but it gives different grades to the provincial governments.

To the U.K., our question to our colleagues here in the Department of Finance in Canada was about how you make your system more transparent. You have a full accrual accounting in both your budget and main estimates, and your supplementary estimates are on an accrual basis as well. How has that facilitated an ease of accountability and transparency?

**The Chair:** If I can interject to our friends from the U.K., I'm sorry, but you'll have probably just a little less than two minutes for your response.

**Mr. Michael Sunderland:** I shall try to be brief.

Essentially, how we try to square the circle that a Canadian colleague just mentioned there, I suppose, is in the presentation. Ultimately, when we present the estimates, not only do we present the totals on which Parliament is voting, but we also present what we call non-voted totals, which have existing authority, and it's on that basis that you can clearly see a linkage and an alignment between the budgetary totals that the treasury is using to control public expenditure and the totals that the Parliament is voting on.

**Ms. Yasmin Ratansi:** Do I have time?

**The Chair:** You have 30 seconds.

**Ms. Yasmin Ratansi:** I'll give it to Mr. Blaney.

**The Chair:** Do you have a quick answer, Mr. Leswick?

**Mr. Nicholas Leswick:** Just to promote the same idea, that was the reconciliation table I was speaking to. We have tried to establish the same reconciliation in our estimates. We take the expense plan as presented in the budget and reconcile it to the ultimate spending plan cash authorities as presented in estimates. We try to establish these control totals between the two documents.

I don't know that it goes far enough, to the point you're making, but I would also say that the accounting differences between the two documents are quite fractional, in the sense.... Accrual accounting only explains around \$5 billion of the difference between the budget and the estimates, but the universe of the budget versus the estimates is a much larger gap.

**The Chair:** Thank you very much.

We have a new member with our committee today.

Welcome, Monsieur Godin. I understand that you will take the questions.

[*Translation*]

**Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC):** Yes. Thank you, Mr. Chair.

Thank you for participating in this exercise, gentlemen. My colleague, who has a background in accounting, has a much better understanding of these issues than I do. As the chair mentioned, I am new to this file, and I am here on a temporary basis. However, I will try to rise to the challenge and play my role as a parliamentarian well.

My question is for the representatives of the Department of Finance.

You seem to be rethinking things, with the intention of consolidating everything and doing everything simultaneously to facilitate the exercise. What is the advantage of consolidating everything? What kind of time frames would we be talking about in terms of implementation?

• (1550)

**Mr. Nicholas Leswick:** I would like to answer in English.

[*English*]

**Mr. Joël Godin:** Yes, no problem.

[*Translation*]

**Mr. Nicholas Leswick:** Thank you.

[*English*]

I think it's clear that there are definitely advantages in terms of establishing the coherence of the budget and estimates documents. Without a doubt, this lag time between the budget and estimates and how budget initiatives, whether cash or accrual, eventually find their way into the ultimate authorities document, which is the estimates, needs to be truncated.

We can't have budget initiatives that don't find their way into estimates for multiple estimates periods, so clear coherence with parliamentarians is a clear advantage. I think that means as part of

the executive approvals process, we have to get much more of the budget initiatives to this substantive costing basis so that they're able to be included in the next available estimates, whether that's the main estimates or supplementary estimates, so that the spending plans is aligned, again whether it's cash or accrual, and there's clear coherence between the two documents. Absolutely.

I think that we're seeing paradigms like this in British Columbia and Ontario, where they have this clear coherence.

[*Translation*]

**Mr. Joël Godin:** That can't be done at a snap of the fingers. So the implementation has a time frame.

I would like to get a realistic idea of how much time will be needed for everything to be harmonized. Are we talking about a year and a half, two years or five years?

[*English*]

**Mr. Nicholas Leswick:** It's difficult to answer that directly, because I think we'd actually seriously have to consider what machinery changes we're talking about.

I know that the President of the Treasury Board will bring forward options to potentially delay the tabling of the main estimates, which frankly will buy us a little time, if we have an early budget, to get budget items through the Treasury Board and into estimates so that they can be included in the main estimates.

I think there are other ways to go about it. We, as a bureaucracy, should probably be looking at more substantively engaging with departments to establish a substantive costing of their proposals before they even get into the budget process. In that context, we could eliminate some of this lag time between a budget approval and a Treasury Board approval, if I'm being clear.

In summary, I think getting this more substantive costing of initiatives into the budget queue so that they're then ready and able to be included in the next available estimates is where I think we should be focused. It would create a much shorter turnaround time between the budget and the estimates.

[*Translation*]

**Mr. Joël Godin:** Given the staff at your disposal, can the machinery of government ensure that harmonization effectively? My estimate of the time frame would be three years, but it may be one and a half years or two years.

[*English*]

**Mr. Nicholas Leswick:** It's difficult to say.

Again, it depends on the machinery change we're talking about. I think the system is nimble enough to start to establish more discipline up front so that when new programs and initiatives are brought into the budget process, they have some sort of substantive costing attached to them.

Whether departments and agencies are ready for that—whether they have the financial management and accounting capacity to be able to appropriately cost initiatives, not just at some indicative level but at an actual substantive level, so that when they roll out of the budget process they're immediately included in estimates—is probably a question better focused to the Treasury Board Secretariat and its overall stewardship of the CFO and financial management community.

[Translation]

**Mr. Joël Godin:** As far as I understand, harmonization could take place pretty quickly. We know that the machinery of government can ensure that transition.

What would be the medium-term benefits of that harmonization?

• (1555)

[English]

**Mr. Nicholas Leswick:** The ultimate coherence is the benefit or the ability to table a budget document and an estimate document that are inclusive and linked.

Obviously the theory is that we table a budget at the beginning of February, that we table interim supply, and that we roll any new budget items into the next available estimates. However, that success all depends on how quickly departments can turn around costings from the budget and turn them into substantive costings so that they can be included in the next available estimates. We've proven that for a good percentage of those items, it's difficult for departments to turn that quickly.

Is it a three-year time frame? It's difficult to say. It depends on the architecture we're considering.

**The Chair:** We'll be going to Mr. Weir.

Before I do so, though, if there are questions to our visitors from the U.K., could you identify yourselves before you present your answers so that our translators and the people who are taking minutes of this meeting will be able to identify who is giving which answer?

Mr. Weir, you have seven minutes, please.

**Mr. Erin Weir (Regina—Lewvan, NDP):** Thank you, Mr. Chair.

I'm struck by the fact that we brought in very senior British officials via video conference and we've barely heard from them yet. I'd like to use my seven minutes to ask them for their thoughts on the key differences between the British and Canadian budgetary processes, and if they have any views on how the Canadian process could be improved.

**Mr. Michael Sunderland:** My name is Michael Sunderland. I'm acting deputy director of government financial reporting for the Treasury.

I would not pretend to be an expert in the Canadian system in any way. However, one of the benefits we see in aligning the estimates, the budgets, and ultimately the financial accounts is that it has improved transparency. It is easier to track the Treasury's expenditure plans.

Ultimately, there are still challenges, and the challenges come from.... Under transparency, people require different levels of

granularity of information and people have different needs. Sometimes we are asked for much more granular kinds of information in the presentation of the estimates and the financial accounts. At other times people are concerned that there is too much information and say that it's quite hard to see the wood for the trees.

Ultimately, most countries are trying to strike a balance that enables them to have firm control over their public expenditure while providing some rigorous transparency to their parliaments for the expenditure they've undertaken.

**Mr. Erin Weir:** One of the sources of transparency in the Canadian process is that we have three rounds of supplementary estimates that this committee reviews every year, so there's an opportunity for scrutiny of departmental spending on each of those occasions.

I believe that in the United Kingdom there is only one round of supplementary estimates, so I wonder if you have any thoughts on that. Do you see any loss of transparency by only having one round? Do you find that to be effective? Do you have any thoughts on having three rounds?

**Mr. Michael Sunderland:** I think we previously did have further updates, but we moved to having one supplementary estimate, I think mostly to reduce the administrative burden and to make it a more efficient process overall.

The tradition around parliamentary scrutiny of expenditure in the estimates is different in the U.K. compared to Canada. We have a stronger tradition that focuses on *ex post* scrutiny of the expenditure undertaken, with quite rigorous processes oriented around a particular committee, the public accounts committee.

• (1600)

**Mr. Erin Weir:** I guess our supplementary estimates are *ex ante* scrutiny, but do you see anything desirable in having more or fewer rounds of supplementary estimates?

**Mr. Michael Sunderland:** I think, from a financial management perspective, we would want departments' plans to be as rigorous as possible, and we would hope not to change those on too regular a basis.

Having only two rounds, with one at a further point in the year when an expenditure total could be changed, provides clarity to departments on the remit within which they're working. There's an onus upon them to take the necessary financial management steps to live within those resources, as opposed to having multiple opportunities to revisit requests for resources from Parliament.

**Mr. Erin Weir:** Fair enough. Good answer.

In Canada the budget is prepared by the Department of Finance, whereas the estimates are prepared by the Treasury Board Secretariat. That's one of the reasons they've been difficult to align.

I believe in the United Kingdom those functions are conducted within the same agency. I wonder if you could comment a bit on the pros and cons of having the two separate organizations challenging each other and perhaps holding each other to account a bit, versus having consistency and alignment between the different parts of the process?

**Mr. Michael Sunderland:** In the U.K. the Treasury is both the finance ministry and the economic ministry. I think we see benefits in having strong coordination and having those functions that you refer to within the Treasury. If you are exposed to particular challenges or trade-offs, those are addressed internally and in as constructive a way as possible, but maybe not between different departments.

The British system has a strong centre in terms of the role of the Treasury. That assists us in exerting good spending control overall over public expenditure and enables us to make sure we have good incentives in place to achieve value for money.

**The Chair:** Mr. Drouin, you have seven minutes, please.

**Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.):** Thank you, Mr. Chair.

I want to thank the witnesses in the U.K. for being with us so late at night.

I will address most of my questions to you. Just to build a bit on what Mr. Weir was saying, in Canada we have main estimates, and as part of these main estimates we have reports on plans and priorities at the beginning that outline what the departmental plans are over three years. We also have the DPRs, the departmental performance reports, which analyze whether or not they have achieved their strategic outcomes.

How does the U.K. report back to Parliament with their main estimates in terms of the plans of the department?

**Mr. Michael Sunderland:** If I separate out the financial aspect versus the broader performance aspect in terms of financial performance within the financial statements, there is a particular statement that goes beyond what commercial accounts would produce. It's called the statement of parliamentary supply, which in effect is the outturn against the estimates. If a department exceeds any of those expenditure limits, it results in what we call an excess vote and results in the qualification of the accounts. It's likely the accounting officer for that department would then have to appear before the Public Accounts Committee.

In terms of performance frameworks, performance frameworks in the U.K. have changed over time with different governments. Most recently, the existing government is introducing a regime called single departmental plans, which largely brings together the different objectives of the government, including their specific manifesto commitments. It allocates particular performance objectives to different departments and coordinates those. It also has a number of key performance indicators that underpin those, or it reports against those performance objectives. They will be published, and they are fed into the front-half narrative, as it were, of the annual reports and accounts.

•(1605)

**Mr. Francis Drouin:** I know in Canada we're mimicking a bit of the U.K. model with regard to the results and delivery unit. Was that because of that, or...?

**Mr. Michael Sunderland:** Sorry; can you repeat the question?

**Mr. Francis Drouin:** In Canada, we have a results and delivery unit, which was built on the model of the U.K. In the Privy Council, we have somebody specifically assigned to the results and delivery

unit to make sure the strategic priorities of the government are followed through. I was just wondering about the impact of that with regard to the department. Again, going back to how departments report back to Parliament, does that have an impact? Did this have an impact in the U.K.?

**Mr. Michael Sunderland:** It does. There's what you might call the central coordination role around government plans and delivery, and it has been done in different ways by different governments. It typically is driven by something out of the Cabinet Office, which is another core central department. We have something called the implementation unit, and I would say it has a significant role, certainly in this government.

Also, under this government there is an increased focus on ensuring coordination between the Cabinet Office and that implementation unit and the Treasury, which controls the finances side.

Certainly it sounds very similar.

**Mr. Francis Drouin:** Thank you.

Mr. Weir asked questions to the U.K., but I will ask this question to the finance department.

Finance Canada prepares the budget and Treasury Board prepares the main estimates. If we were to move to a line budget in main estimates, how would that impact your department? Have you thought about that? Is somebody thinking about that, in terms of collaborating with the other department?

**Mr. Nicholas Leswick:** Simply stated, there would have to be much greater collaboration. This gets into the spirit of the answer I was trying to formulate for Mr. Godin. There would have to be a whole different kind of psyche for the entire government machinery in terms of what comes into the budget process being substantively costed so that it seeks its budget approvals and its Treasury Board approvals concurrently, so that you're able to table a budget and a main estimates document at the same time.

If Treasury Board and the Department of Finance were in the same place, would that help? Maybe. It's difficult to say. We work together. We're in the same building. They occupy the first five floors; we occupy the next five floors. There's a certain synthesis already. It's difficult to speculate on an ultimate machinery change of that nature.

**Mr. Francis Drouin:** Thank you.

**Mr. Nicholas Leswick:** May I just add one comment, though, on supplementary estimates, just as the committee frames its recommendations and considerations?

I know you're talking to the Government of Ontario later this afternoon as well. We do have multiple supplementary estimates in the federal government context, but what we don't have in our main estimates is any sort of contingencies plug. While we have supplementary estimates, we don't have, in some ways, a substitute for a main estimates document that has some sort of contingencies built into it.

There's a little give-and-take there from a parliamentary perspective. We could seek, let's say in a federal context, just one estimates document, the main estimates document, but then have some sort of contingencies as a percentage of our total spending plan as a plug, should cash requirements, spending requirements, need to be met further down the road. You would eliminate the supplementary estimates, but you would forgo some sort of authorities on what exactly the nature of that contingencies vote is used for. That would be some consideration for the committee. I'm not advocating that our system is best—far from it, actually—but there's a balance there.

• (1610)

**The Chair:** Thank you very much.

We'll now go to a five-minute round. We'll begin with Mr. Blaney.

**Hon. Steven Blaney (Bellechasse—Les Etchemins—Lévis, CPC):** Thank you very much, Mr. Chair. I would like to thank our colleagues from Great Britain, and I want to thank our witness for being with us this afternoon here in Canada.

In Great Britain, just for my own knowledge, can you tell me how long you've been working on an aligned accrual basis for your budgetary format presentation?

**Mr. Michael Sunderland:** It's Michael Sunderland again.

We first moved to accruals for both resource accounting and for the supply estimates in about 2001-02; however, I suppose the big alignment of both Treasury budget totals and parliamentary totals was implemented in 2011-12, and we've been running on that basis since.

The principles that underpinned it, or the aspiration, were first put forward and meted out, I think, in about 2007, as part of a wide range of reforms about the relationship between the executive and Parliament, and there were further proposals that were put by the government in a white paper in about 2009.

To move from quite firm proposals to implementation was the period between about 2009 and 2011-12.

**Hon. Steven Blaney:** Thank you. It is relatively recent.

Can you tell us of the challenges you encountered when you were in the transition? Since we would move the estimates part, we would have to be prepared for some. What were the challenges you faced in the process, and what was your department's relationship with other departments? Can you tell us a little bit about what kind of experience it was to shift?

**Mr. Michael Sunderland:** There were some significant challenges. There were some on the technical side around accounting frameworks. The budgets that the Treasury set tried to underpin the fiscal framework. Our fiscal measures for fiscal policy are typically based on what we call the national accounts, which are based upon macroeconomic statistics. The framework that we use at the moment is the European system of accounts; however, our financial reports were based essentially on IFRS, the international financial reporting standards. There are technical differences between these two frameworks. There was a process that we had to go through to try to align these as much as possible.

In addition to that, another key part of the reform that was challenging was that the budget boundary included all of the expenditure of the arm's-length bodies of departments. Implementing this reform meant that departments would have to produce a full consolidation of all those bodies into their financial reports, and in many cases that was quite a significant exercise.

**Hon. Steven Blaney:** Were you able to achieve this transition within existing, I would say, financial budget allowances for doing those exercises?

**Mr. Michael Sunderland:** I would say yes. I think as far as reforms go... I don't have any numbers, but it was not a hugely costly exercise.

**Hon. Steven Blaney:** Okay.

You mentioned some technical aspects. If we go into the political domain, has it helped? You mentioned it improved transparency. Did you see that the finance committee had to adjust? Did the fact that you changed have an impact on political discourse? Did politicians get a better understanding? Could you highlight some liabilities? Can you tell us a little bit about the political side of that change, from your perspective?

• (1615)

**The Chair:** Gentlemen, I hate to interrupt, but I'll ask you, since our time is expired, if you can perhaps shelve that answer just for a moment, and perhaps we'll get back to it a little later in today's interventions.

We'll now go Mr. Whalen for five minutes, please.

[*Translation*]

**Mr. Nick Whalen (St. John's East, Lib.):** Thank you, Mr. Chair.

We have witnesses from Canada and from the United Kingdom. I will put my first questions to the witnesses from the United Kingdom.

[*English*]

Gentlemen, I'm actually going to follow up on the same question Mr. Blaney asked about your thoughts on the political aspect of votes that may be based on accrual-based accounting, and what level of authority parliamentarians in the U.K. have to vote their appropriations.

How do they approve the estimates that are presented before them, and what level of oversight do they have through the political process on the spending? Are they approving contingent liabilities? Are they only approving cash outlays? Can you explain to us a little bit about how that works?

**Mr. Michael Sunderland:** Under the current system, Parliament votes on a number of control totals in the estimates, and those control totals are largely aligned with budgetary controlled totals that the Treasury sets.



There is a total for capital expenditure and for resource expenditure. There is a subdivision total of administration costs, and there is a cash limit, called the net cash requirement. In the U.K.—and my colleagues will correct me if I'm wrong—there is a series of debates called “estimates days debates”. I think there are now three during the course of the year: one for the main estimates, and two for the supplementary estimates.

Under that process, something called the liaison committee, which is composed of the chairs of all the different select committees, chooses the estimates that they wish to debate, and they hold a debate on those. Then, typically, the remainder of the estimates are all approved, effectively kind of on the nod, without significant debate.

**Mr. Nick Whalen:** With respect to new initiatives that the government might be introducing, and with the estimates tabled much more closely in time with the budget than they would be in Canada, what sorts of documents would be prepared and be available, either to cabinet or to members of Parliament themselves, to scrutinize the cost of new initiatives in an individual budget?

**Mr. Michael Sunderland:** I think the process in the U.K. that makes the new proposals most transparent is actually through the process around the budget itself, and also through the role of the independent fiscal forecast institution called the Office for Budget Responsibility.

What essentially happens is that as part of the budget document that the Chancellor produces and the Treasury publishes, we have something within it called the scorecard. Essentially, for all the announcements and new proposals that the government has suggested that may increase expenditure, we have to indicate essentially where the funding for those is coming from, and those costings have to be approved by the independent fiscal forecaster, the Office for Budget Responsibility, and likewise for tax measures, so it becomes quite transparent at that time whether the overall budget is fiscally expansionary or contractionary, and it explains clearly how we are funding the new proposals that the government may have.

**Mr. Nick Whalen:** Very quickly, because we don't have much time, with respect to tax expenditure plans and those types of initiatives, would there be appropriations or votes by members of Parliament at the same level of scrutiny that non-tax expenditure measures would get through this process? By this I would mean tax deductions or various....

Go ahead and answer.

• (1620)

**Mr. Michael Sunderland:** I think that tax changes for the most part would be done through the finance bill rather than through the Supply and Appropriation Act. The finance bill has a series of debates and scrutiny around it, almost, one might say, more so than the appropriation act.

As for the extent of discretion of tax expenditures—and many countries have things like tax credits and the like—the decision is, I suppose, whether it's a tax measure or a spending measure. For us it's largely driven by the statistical treatment and whether it constitutes public expenditure under National Accounts or whether it's a form of tax reduction or a negative tax.

**The Chair:** Thank you very much, gentlemen.

We'll now go to Monsieur Godin. You have five minutes, please.

[*Translation*]

**Mr. Joël Godin:** Thank you, Mr. Chair.

I will turn to the witnesses from the United Kingdom. Thank you for being here at such a late hour for you.

There is no perfect system. There are probably some elements in your process you find irritating. Your system is probably a bit more efficient and more accurate than ours, but it likely has some shortcomings and inconveniences. We would really appreciate it if you could tell us about that.

[*English*]

**Mr. Michael Sunderland:** I would probably go back to the point that I made earlier, which is about trying to meet the different needs of different users, both in terms of financial reports and also in terms of the presentation of budgetary proposals or in the estimates, or whatever. Different users have different needs, and what might seem like very useful, granular, detailed information to some people becomes almost impenetrable to other people because it's far too detailed.

Also, the challenge we face in the U.K. is that some of these things are quite technical, so we need to be able to produce information in a way that is digestible for parliamentarians who may not have a financial background and are obviously very busy and have a multitude of demands upon their time and really want to get to the essence of what is trying to be communicated.

What I would say is that we produce a lot of information. We highly value trying to be as transparent as possible, but there is a risk that you could produce so much information that people can't see the wood for the trees, so we are forever trying to strike a balance correctly.

[*Translation*]

**Mr. Joël Godin:** Is that a communications problem? We have the same issue in Canada, as parliamentarians are also very busy. The amount of information we receive and the speed at which we receive it mean that we also have to proceed quickly. Should this be given some consideration? Shouldn't parliamentarians' understanding of those issues be facilitated in order to accelerate the process? The process may be technically correct, but perhaps we could look into the communication tools used.

[*English*]

**Mr. Michael Sunderland:** There is something to be said for that, and I think there have been relatively recent reforms that have tried to assist Parliament in undertaking financial scrutiny, for example, by creating a financial scrutiny unit that can provide assistance to parliamentarians. However, to a certain extent, when you have more officials providing advice and guidance and analysis, whether it be in Parliament or elsewhere, there will be an additional cost.

I think there is also something more that could be done in terms of education and training as well.

• (1625)

**The Chair:** Please make it a very brief question.

[Translation]

**Mr. Joël Godin:** I really want to thank the witnesses from the United Kingdom.

To wrap up, I will turn to the Canadian witnesses.

Do you have the same problem in communications as the one the witnesses from the United Kingdom just talked about?

[English]

**Mr. Nicholas Leswick:** Frankly, our colleagues from the United Kingdom are bang on. We're struggling with how to make these estimates useful, which is the purpose of this discussion.

Although public sector accounting standards are different from IFRS, there is this accrual basis as to how we present the budget plan and there are some generally accepted accounting principles, but translating that into the ultimate cash authorities that go into the hands of departments and how that can be usable and understandable is this perpetual challenge, absolutely.

**The Chair:** Thank you very much.

Our final intervenor will be Madam Shanahan. You have five minutes, please.

**Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.):** Thank you very much, Chair, and thank you very much to our witnesses who are here with us today.

As a former commercial banker, what I'm seeing is the difference between the financial accounting that we need to have—the income statement, balance sheet, and so on—and what we used to look for, which was the cash flow. We wanted to know where the financing was coming from. Was it internal or were we putting through a loan?

To me, it's not that difficult to understand. I think when we're voting as parliamentarians on the appropriations, we want to know just how much cash we have to put into the system, if I'm summarizing it correctly.

I'm very interested by what our colleagues in the U.K. have said about costing, because I would never give a loan to a business owner who came to me to buy a truck or a piece of equipment without knowing how much it costs first. I might have something to say about whether I agreed with the cost, or get an independent evaluation, and so on. That makes a lot of sense to me.

What I would like to know—just following up on how you went through this transformation procedure—is what the learning curve was like for departmental officials to provide adequate costing. What was the learning curve like for the parliamentarians who were sitting on committees and who had to understand these different types of financial reporting documents?

**Mr. Michael Sunderland:** I think there has been a challenging learning curve over a very long period of time. I suppose you could almost see with that transition the development of the finance function within government and the agenda of professionalization we've had in the U.K. over quite a long period of time to ensure we have people with the right professional expertise.

I would also say that both for the business of government and in terms of costing proposals, this is not simply the work of

accountants. In reality, many of these things are cross-disciplinary, requiring economic analysis, a lot of economists, statisticians, operational researchers, and so on. I think there is certainly an upscaling process that has gone on over time.

In terms of parliamentarians and upscaling there, I suppose one of the more recent innovations in the U.K. is the development of the independent fiscal forecaster. Also, we have a very powerful audit institution in the form of the National Audit Office. To some extent, parliamentarians will seek to do the analysis for themselves, versus relying on informed judgments that come from these independent institutions that are hopefully well resourced and have a significant amount of technical capability to be able to provide comment and challenge to the proposals.

• (1630)

**Mrs. Brenda Shanahan:** Thank you for that.

Ultimately, what we're trying to look at is the overall cost of the program or equipment that we're looking at buying. I wonder how you are able, within your system, to tie the cost of an overall program together, because either it can be departmentalized or you can have many costs feeding into one overall program.

**Mr. Michael Sunderland:** Essentially, in the U.K. we divide budgets into two halves, broadly. We have what we call departmental expenditure limits, which are set at the time of a spending review. These are multi-year budgets that cover the department's programs, over which we would expect them to have some control and some leverage. We also have annually managed expenditure, which is by nature much more volatile and potentially demand-driven. It might include things like pensions or social-security-type payments.

Essentially, for those large programs you're talking about, the way we allocate resources in the U.K. is through the spending review process, which factors in those intended plans and the possible programs the government wants to take. In the process of trading off the different options that people have, the government will take a decision on the levels that they're willing to accept for those departmental expenditure limits. Then it's broadly up to departments to live within those limits over the period.

In terms of monitoring specific programs, I suppose we have assurance processes around those. We have something called the Major Projects Authority, which looks at very large-scale programs and provides some challenge—

**The Chair:** Excuse me, Mr. Sunderland. Thank you.

I know you could go on probably for several more minutes and it would be extremely interesting, but we do have a tight schedule. We have other witnesses before us this afternoon, so I'm going to have to cut it off there.

I do want to thank you, Mr. Sunderland, and Mr. Melbourne and Mr. Hansman, for taking the time to be with us. I know it's a lot later in the U.K. than it is here in Canada, so we do appreciate your attendance here. You've been very informative.

I also want to thank our officials from the Department of Finance, Mr. Leswick and Mr. Recker. Thank you so much. You've been very helpful.

We'll adjourn for a couple of minutes while we wait for our next witnesses.

**Ms. Yasmin Ratansi:** Can we keep the witnesses from the Department of Finance in case we have questions?

**The Chair:** Mr. Leswick and Mr. Recker, would you be able to stay while we conduct another hour?

I know it hasn't been part of your schedule. How much time would you have, if any?

**Mr. Erin Weir:** Not even for the full hour, but given that we started a bit late—

**The Chair:** How much time would you have?

**Mr. Nicholas Leswick:** I am supremely apologetic. I'm always available to this committee. However, I do have a child pickup.

I will come back at any moment to continue to testify and answer questions from this committee, but I do apologize.

**The Chair:** It's family first. I think we all understand that.

**Mr. Nicholas Leswick:** My wife is travelling. I apologize.

**The Chair:** Thank you very much.

We are suspended for about two or three minutes while we get our next witnesses to the table.

Thank you so much.

- \_\_\_\_\_ (Pause) \_\_\_\_\_
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- (1635)

**The Chair:** Ladies and gentleman, I think we'll begin again if we can.

Before we commence with our questions to our witnesses, I will tell you that we will need probably less than 10 minutes for some very brief committee business at the end, so I will be suspending just before 5:30.

Now we have with us two officials from Treasury Board Secretariat of Ontario, Mr. Orencsak and Mr. Giannikos. Thank you both for being here.

I understand, Mr. Orencsak, you have roughly a 10-minute PowerPoint presentation to begin.

**Mr. Greg Orencsak (Deputy Minister, Treasury Board Secretariat of Ontario):** That is correct.

Thank you very much, Mr. Chair, for having us here today to share Ontario's approach to and experience with financial reporting, which may be of interest to your committee as you study the budget and estimates processes.

My name is Greg Orencsak. I am the deputy minister of the Treasury Board Secretariat and secretary of Ontario's Treasury Board and the management board of cabinet.

I am joined by Chris Giannikos, who, as of yesterday, is the associate deputy minister of the infrastructure plan at the Ministry of Infrastructure. Congratulations, Chris.

Prior to that, Chris was the assistant deputy minister for the office of the budget in Ontario's Ministry of Finance.

Our Ministry of Finance and Treasury Board Secretariat in Ontario have a long history of working together, either as two separate ministries and central agencies or combined as one. Together the ministries provide leadership for the development and implementation of the government's fiscal plan, including the expense and revenue components that feed into this plan and the basis on which the plans are communicated to the legislature, the public, and other key stakeholders.

We appreciate the committee's interest in the issue of aligning various financial reports and the role that accounting plays in this.

Ontario's fiscal and financial planning is underpinned by a strong commitment to transparency and accountability. This is best achieved when these issues are approached through a consistent lens when it comes to decision-makers, legislators, and the public as the key users of this information.

We understand that the committee is particularly interested in how Ontario aligns the budget and expenditure estimates, as well as some of the considerations regarding cash and accrual accounting. I will begin by providing an overview of the legislation that governs Ontario's budgeting and reporting and discussing how Ontario transitioned to reporting on a fully consolidated basis. My remarks will serve to highlight the key elements of the presentation we have provided to the committee. I will then turn it over to my colleague to speak about the financial reporting cycle in Ontario, and then I will conclude with observations about Ontario's experience with accounting and reporting changes. After that, we will, of course, be happy to take your questions.

There are two significant pieces of legislation that guide financial reporting in Ontario: the Fiscal Transparency and Accountability Act and the Financial Administration Act. Together, these two acts provide a framework for financial reporting by specifying the frequency and detail required for publicly communicating the government's financial plan and results.

The Fiscal Transparency and Accountability Act outlines a number of principles that govern how the government should approach fiscal planning, including responsibility, flexibility, equity, and transparency. All of these principles are vital to sound fiscal planning, but in the context of this discussion, I would like to highlight how transparency is fundamental to Ontario's financial reporting practices, in terms of both reporting regularly and doing so on a consistent basis.

From an accountability perspective, the Financial Administration Act establishes the process through which both statutory and voted appropriations are approved. It also limits public spending to these appropriations and requires that expenditures against an appropriation must be used for the purpose they were intended for.

As you are aware, in Ontario all fiscal reporting is on a fully consolidated basis. By publishing the budget expenditure estimates and public accounts all on the same basis, the government is able to clearly articulate not only plans, but also progress relative to these plans.

In order to ensure effective management of the province's finances, the powers required to do so are shared between the Minister of Finance and the President of the Treasury Board.

I will now turn it over to Chris to discuss our annual reporting cycle.

• (1640)

**Mr. Chris Giannikos (Associate Deputy Minister, Infrastructure Plan, Ministry of Infrastructure):** Very quickly, I just want to draw your attention to the fact that the fiscal cycle is based on three pillars.

The first one is the fact that the budget is typically released before the start of the year. That is followed by the tabling of the estimates 12 sessional days after the budget. Both of these documents are on the same basis in terms of the numbers, and you can cross-reference between the estimates and the budget quite easily. The third pillar is the public accounts, which provides what actually happened.

You have the planning document. You have the appropriations authority. Then you have the final step, showing what actually did occur as part of the public accounts.

The rest of the pieces on that diagram show you that throughout the year there are interim updates that are provided to Parliament in terms of finances. The first-quarter finances, which are basically a simple update and mirror the fiscal chapter in the budget, are provided by August 15. Then the third-quarter finances are released by February 15.

The last piece I want to draw your attention to is what we call the Ontario economic outlook and fiscal review. That, in some instances, can be almost a mini-budget, and it provides not only a financial update but also key policy updates that have fiscal implications. It's usually the mechanism by which the government may signal course corrections or changes in terms of its fiscal plan.

I want to end by underscoring the deputy's point that the synchronization between the estimates and the budget relies on a very in-depth collaboration between the two organizations, to the extent that we are present at Treasury Board meetings and follow throughout the whole process. It is very integrated. It is not a relay sort of arrangement, but an arrangement that takes place together throughout the whole year.

Thank you.

**Mr. Greg Orencsak:** A consistent approach to planning and reporting obviously didn't happen overnight. As I think you've heard from previous witnesses who appeared before this committee, it took almost a decade to prepare for and implement a full accrual accounting system in Ontario. Through that period, the government sought advice and consulted broadly to ensure an effective transition. It also meant focused work in terms of building capacity, training, and systems changes.

In the end, though, we believe this method of accounting is essential for transparency and accountability. It provides legislators with improved information and better understanding of the cost of programs, while allowing for a rigorous budget monitoring process. It ensures comparability between financial reports and it helps to better plan capital asset requirements.

Moving to accrual accounting was not without difficulties. I think you've already also heard about that. The additional complexity of accrual accounting posed challenges for operations and public understanding during the transition.

Today Ontario is considered a leader in financial reporting practices, so in our view it was well worth it. The C.D. Howe Institute consistently recognizes Ontario as one of the leading jurisdictions in Canada when it comes to fiscal transparency and accountability. Consistency in accounting is important for clear decision-making and understanding the long-term impacts of current policies on public finances.

We acknowledge this is an ongoing journey. Accountability and transparency is not an end state; it's something we are always looking to build on and improve to respond to the demands and requirements of the public and the legislature.

With that, I will conclude. We are happy to take any questions from committee members.

• (1645)

**The Chair:** Thank you very much.

We'll start with the government side. Monsieur Ayoub, you have seven minutes, please.

**Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.):** Thank you, Mr. Chair.

I will be asking the questions in French, please.

[*Translation*]

I want to begin by thanking the witnesses for joining us.

Following the presentation by the United Kingdom representatives, we could now hear from the representatives of Ontario, where a system is already in place. It is appropriate to be able to go into a little more detail on these issues.

Mr. Orencsak, in your presentation, you provided a short history of the implementation of accounting practices. According to the documents, your system has been in place since 2003 or 2004.

What impact have changes in the accounting methods had on parliamentarians' ability to perform their duties, ask questions and stay on top of the issues? You talked about transparency, but what has this changed for parliamentarians in recent years? By extension, what would be the potential impact of all that on us?

[*English*]

**Mr. Greg Orencsak:** Thank you for that question.

As with any change of this magnitude, I think there were ample consultations and dialogue that helped inform the path forward. The Ontario Financial Review Commission first made recommendations to that effect and that, in and of itself, was a body that engaged in extensive consultations processes.

Ontario is also somewhat unique in Canada in that it has a dedicated estimates committee of the legislature, a standing committee on estimates. All that committee does is review estimates, so there are dedicated parliamentary committee members whose mandate is devoted to reviewing estimates. As a result, there was a body of legislators who were available for consultation and ongoing dialogue over that process.

That dialogue took many forms. It took place with legislators, with the government, with the public, and some of that was reported through public documents, such as budgets and the public accounts. That was important in the context of getting Ontario ready, getting both the producers and the users of the information prepared for the changes that were coming.

I would, of course, be remiss if I didn't mention in that consultation process the provincial auditor, the Auditor General's Office. They played an important role in this journey as well in terms of ongoing dialogue whenever it comes to any kind of accounting or reporting change that is implemented in the province. They played an important role in that, and that's very important from the perspective of legislators, because legislators have a right and an ability to hear not only from government representatives but also from independent officers of the legislature.

[Translation]

**Mr. Ramez Ayoub:** Thank you.

I assume that the transition happened over a period of time. Can you tell us about the training that has been provided? Has training been provided to public servants and parliamentarians during the transition period to bring them up to date on accounting practices?

• (1650)

[English]

**Mr. Greg Orencsak:** Yes, training was provided. I can't speak to the specifics as I was not around at the time in this role, or I was not involved at that time in terms of the rollout of the transition. I don't know, Chris, if you were personally involved.

What helps in terms of our financial planning, budgeting, and reporting practices is that they repeat every year, so subsequent planning and reporting cycles provided a good way of getting the system ready, if you will, for the changes that were being implemented, and as with any kind of change of this magnitude, there's always a certain amount of incrementality that is used in terms of rolling out these kinds of changes.

We didn't flick a switch all at once. We first started with the budget and the public accounts, and the estimates followed shortly thereafter.

What was also, I think, instrumental in terms of Ontario's transition, having talked to some of the people who were involved and having looked at the documentation in preparing for today's appearance, were the systems changes that were done as part of our financial management systems. They took that opportunity to implement a government-wide integrated financial information system, which helped with the transition.

As part of that, obviously, when you roll out a large financial management system, you have to train people to be able to use that system.

**Mr. Ramez Ayoub:** How much more time?

**The Chair:** Less than 30 seconds.

[Translation]

**Mr. Ramez Ayoub:** How much time do you need to prepare your budget? Are we talking about weeks or months? How many people work on budget preparations to finalize the annual forecasts?

[English]

**The Chair:** A very brief answer, gentlemen.

**Mr. Chris Giannikos:** Very briefly, about 250 people are immediately involved in it, usually within the Ministry of Finance and Treasury Board. In addition, line ministries will be brought, in depending on whether they are impacted by budget initiatives, but the core group is around 200 to 250.

How long does it take? Generally it takes about a month and a half, and that would be on the aggressive side.

**The Chair:** Monsieur Blaney, you have seven minutes.

[Translation]

**Hon. Steven Blaney:** Thank you, Mr. Chair.

[English]

I also would like to welcome you to committee. I guess in Ontario they're missing two key people now in the machinery, so we'll make the best use of your presence here.

I want to thank you also for your presentation, which was very well done, very well prepared. That will be very useful for our analysts. In a nutshell, I would say that if we had any doubt that this is an interesting way of aligning, your presentation was certainly a pleasure and a good pitch in that direction.

As I was discussing with my colleague, basically it took you almost 10 years from the time you were on a cash basis. There were the three reports, and then you moved.

One question we had is regarding amortization. When we spoke to our Australian colleagues, they said they had to make some adjustments.

Can you walk me through how you deal with the amortization of public assets, and what the impact is on the various reports?

**Mr. Greg Orencsak:** Sure. It's a great question, and maybe we'll tag-team on this one.

From look at the transcripts from your previous discussions, I understand that some of the concerns from the Australian experience have been on how funding or appropriations that were intended for amortization purposes were used.

From the perspective of our financial management framework, we have strict policy and legislative controls on how appropriations can be used. There is a statutory constraint around certain kinds of appropriations, such as amortization, and there are also policy constraints in our financial management directives that ensure that appropriations intended to be used for amortization purposes are indeed used for amortization purposes. We haven't had the experience of our Australian colleagues in this regard.

I will ask Chris to briefly mention how we budget for capital, and what that looks like in the estimates in terms of the capital asset and amortization experience.

• (1655)

**Mr. Chris Giannikos:** Just to follow on from the deputy's comments, the accrual basis for accounting for capital has important impacts on decision-makers, because it provides the full cost of the asset, and the full cost of the asset is important in terms of determining whether the particular investment should go forward.

As the committee already knows, the initial expenditure will be on a cash basis. It's the purchase of the asset. It will hit the surplus deficit line once you start amortizing it, which is once the asset comes into play and into service. That enables the government to take on more capital investments than if it did it on a cash basis. On a cash basis, it would be an immediate hit to the bottom line. Ontario's \$12 billion to \$13 billion annual investment in capital assets is a cash number in the budget. Behind the budget, where we talk about the financing of it, you will see the depreciation and the amortization cost.

The public will clearly be able to see how much the government is placing in terms of renewing the capital asset base as determined by the depreciation account, so right off the bat, there is transparency in terms of the adequacy of the investment. This assumes that you've made an adequate investment to begin with in terms of the overall stock in the provincial assets overall.

Assuming that investment has been made, it provides an annual check on whether those assets are being kept up in terms of renewal and recycling, which speaks to the efficient allocation of resources to the capital budget.

**Hon. Steven Blaney:** Thank you.

That's for assets, but what about assets that are non-tangible, or a liability such as a pension fund? Have you seen a change after implementing accrual accounting in the capability to better express those public liabilities regarding future engagement?

**Mr. Chris Giannikos:** I can start, and the deputy can fill in.

Yes, the pension fund is a good example, because accrual, as the committee well appreciates, is a long-term view, and a pension fund is a long-term item. If we did it on a cash basis, then you would be doing it year by year, and neither the government nor the parliamentarians would have a good idea of what the liability is in the long term.

In short, accrual accounting does provide the full picture of what that liability would be compared to operating on a cash basis.

**Hon. Steven Blaney:** We had the privilege to have some of the people from Ontario tell us that there was almost a good.... It was like a human resource.

Is my time running out, Mr. Chair?

• (1700)

**The Chair:** You have 30 seconds.

**Hon. Steven Blaney:** Okay.

In the implementation of accrual at the estimate level, from an Ontario perspective, do you see a challenge due to the fact that the federal structure is different and decentralized compared to the provincial one?

I know time is running out.

**Mr. Chris Giannikos:** I'm going to take two seconds, and then I'll pass it on to the deputy.

It provides a better ability to manage the total human resources cost, because we will know the full scale of the pension and the liability.

**The Chair:** Thank you for that.

We'll go to Mr. Weir for seven minutes, please.

**Mr. Erin Weir:** If you did have anything to add on Mr. Blaney's question, feel free.

**Mr. Greg Orencsak:** No. Chris answered it, so I will not take your time, Mr. Weir.

**Mr. Erin Weir:** Excellent.

Going back to the question of how capital investments are treated, it sounds as though you have a relatively good system in terms of transparency in allowing the government to undertake major capital investments.

I suppose one question is whether parliamentarians should be approving capital investments under accrual accounting just for the given year or on a multi-year basis. It strikes me that one could approve a capital investment that might entail a small dollar amount in the current fiscal year, but it would be a relatively large undertaking over a series of years. I'm wondering if you have any thoughts on how the approval should work.

**Mr. Chris Giannikos:** Let me start that off again, and the deputy will jump in.

The province has a 10-year capital plan and 10-year capital numbers. We're one of the first provinces to actually go beyond the one- and three-year period because capital is a long-term proposition. As a matter of fact, the amortization trails on most of the assets are over 50 years to 60 years, if you think about it.

What happens is that when an approval goes forward on a particular capital asset, it will be the total cost. It will be the total cost going out the full 10 years of the particular asset. That will be approved at Treasury Board and then, at the time of the budget, it will be included in the total capital plan.

The capital plan is a 10-year rolling number. It's \$160-odd billion each year, and each year we add an extra year to it, because, if you think about it, you're talking about thousands of assets. Think about it as thousands of mortgages on those assets, and those assets are rolling over each year.

It's transparent in the sense that parliamentarians will know what the total number is, and when they approve the numbers in the estimates, they will know that is part of a bigger number.

**Mr. Greg Orencsak:** The only thing I'll add is that you'll see it's really important that all of the government's planning processes align and that the various approval processes, whether it comes to how a budget is put together or how estimates are reviewed and approved by legislatures....

Getting it right involves a high degree of integration in terms of governments thinking far enough ahead in terms of the 10-year capital plan, in terms of multi-year fiscal plans, so that we bring as much transparency as possible to the decisions facing decision-makers and the public, ultimately, from the perspective of public servants. Hopefully, that leads to better public policy outcomes.

**Mr. Erin Weir:** I'm wondering if you could share some thoughts on whether tax expenditures should be included in the estimates, either provincially or federally.

**Mr. Greg Orencsak:** Sure, and this is less of an opinion than a statement of fact.

In Ontario in our estimates, when a tax expenditure uses a tax system to deliver benefits to taxpayers, they are included in the expenditure estimates on an accrual basis. Ontario follows the standards established by PSAB for tax revenues, which require the disclosure of transfers through the tax system to be represented as an expense instead of being netted against revenue. We estimate these expenses every year, and then they're voted on by the legislature during appropriations approval.

• (1705)

**Mr. Erin Weir:** Do you want to say anything about how it's different at the federal level and maybe how it could be done better federally?

**Mr. Greg Orencsak:** I'm not an expert on the federal finances and estimates, so I would rather not express an opinion on something that I don't think I'm qualified to do.

I can speak to the Ontario experience. I think requiring tax expenditures to be disclosed that way leads to greater transparency and, frankly, better budgeting in terms of trade-offs. It allows us at Treasury Board to examine the effectiveness of a program delivered through the tax system just as much as we look at the effectiveness of a program delivered through the grant system. Ultimately, again from a public policy perspective, what our ministers ask us—and certainly my minister asks me—to opine on is how we can ensure that programs are delivering on intended outcomes. I think it's the same question whether a program is delivered through a grant or a tax expenditure.

**Mr. Erin Weir:** Sticking with the Ontario experience, I'm wondering if you could tell us a bit about how the introduction of a financial accountability officer has affected the provincial budgeting process.

**Mr. Chris Giannikos:** It has added to the transparency. As soon as there is a provincial financing document—whether that's a budget, the quarterly finances, or any of the ones I mentioned previously—there will be a commentary by the financial accountability officer.

He provides his own critique of the assumptions in the forecasting, and that provides parliamentarians of all stripes with the ability to gain a better understanding of all the documents. He's also available to all the parliamentary committees if they have questions around it, and acts as an objective third party evaluator of the government's finances.

**The Chair:** Thank you very much.

Mr. Grewal, you have seven minutes, please.

**Mr. Raj Grewal (Brampton East, Lib.):** Thank you, Mr. Chair, and thank you to our witnesses for coming today.

In a previous life, I was a financial analyst for a Fortune 500 company. When I came to the government and sat on this committee, I was blown away that everything wasn't consistent. It seems basic, so I'm excited to see that all your numbers balanced here. My grade 11 accounting teacher would be very proud.

On a more serious note, consistency is extremely important for the budgetary process.

You guys transitioned slowly. Our budget is already done on an accrual basis, and now it just leaves the estimates to be done on an accrual basis.

Did it take 10 years for you guys to get this all lined up? In your humble opinion, what could we do to make sure it doesn't take that long a time span to get everything on the same page?

**Mr. Greg Orencsak:** You mentioned that Ontario transitioned slowly, which is true. I would also add, and I would hope that this holds true, that Ontario transitioned wisely.

You have to look at the wisdom of the choices that are to be made at the federal level. Our transition was informed by the requirement and the opportunity to build an integrated financial information system.

Could we have done that more quickly? Probably, in retrospect. Do you want to take a lot of chances with that? Probably not. Do you want to build that much more quickly than necessary? Depending on what financial systems you're running at the moment, you have to make a smart and wise business decision about that in terms of value for money as well. All those things have to inform that choice.

The accounting standards and the standard setters are also helping to lead the way. With the federal budget and public accounts already being presented on an accrual basis, obviously there's an opportunity to make the jump if the Government of Canada decides to make that jump more quickly than we did, but the circumstances back then were also different.

• (1710)

**Mr. Raj Grewal:** The budget has a contingency, and that lines up exactly with the contingency in the estimates. They are broken down by program area, I'm assuming.

We have a \$6 billion contingency in the federal budget this year, but it's to hedge against the price of oil and stuff. In the province, that type of contingency would be broken down by department in the estimates process, and you could roll it up right to the \$6 billion, for example?

**Mr. Greg Orencsak:** We would have a contingency allocated and appropriated in the Treasury Board Secretariat. It would be an overall contingency fund under the control of Treasury Board, which would allocate funding out of that contingency fund based on the needs that may arise during the year.

Contingencies are budgeted for in the case of unforeseen expenses and emergencies, for example, but it is a global amount. It's not allocated at the beginning of the year, department by department.

**Mr. Raj Grewal:** It's a one-line item in the estimates and one line in the budget as well?

**Mr. Greg Orencsak:** That's correct.

**Mr. Raj Grewal:** Okay. Excellent.

Does aligning vote to accrual affect appropriations and how the voting system works when the transition happens?

**Mr. Greg Orencsak:** Do you mean in terms of the voting on the estimates themselves?

**Mr. Raj Grewal:** Yes.

**Mr. Greg Orencsak:** It's a good question. I'm not entirely sure, as I wasn't in my position at the time that the transfer was made, so I can only speak to the current process, but I think voting on the estimates takes place fairly effectively and efficiently.

Our estimates committee selects certain ministries whose estimates it reviews more closely. The committee votes on each of these estimates, which are then reported to the full House. I'm not entirely sure about how that transition works, so I apologize for that.

**Mr. Raj Grewal:** No worries.

Was there a study done after the transition happened on the benefits of the transition?

**Mr. Greg Orencsak:** Yes, we have commented on that. We have in subsequent budgets.... In the 2010 Ontario budget, there was an addendum that was published that described our experience and the benefits of moving to a system of accrual accounting that aligned reporting requirements. It was a good synopsis of the journey we undertook.

I think that's important and practical, because public finances are always under a high degree of scrutiny, whether by legislators or the public, so it's important to have those kinds of reviews. We now have a financial accountability officer, which adds yet another layer of scrutiny. It's important to be able to demonstrate the effectiveness of the changes that governments make in this regard.

**The Chair:** You have 30 seconds.

**Mr. Raj Grewal:** We've finished.

**The Chair:** I think we'll go to two speakers on the five-minute round, and then we'll suspend while we excuse our witnesses and go into some committee business.

The first five-minute round will be Monsieur Godin or Monsieur Blaney.

Go ahead, Monsieur Blaney.

[*Translation*]

**Hon. Steven Blaney:** Thank you very much, Mr. Chair.

Thanks again for your comments, Mr. Orencsak.

You successfully transitioned from cash basis accounting to an accrual accounting system. Mr. Grewal gave us the example of perfect harmonization between the main estimates and cash basis. He said he was happy that a balance would be achieved.

However, unfortunately, given the budget presented to us by the federal government, we know that a balance will not be achieved and that we will have a deficit. We can't do anything about that. Fortunately, the Office of Parliamentary Budget Officer, created by our Conservative government, provides parliamentarians with relevant information on those issues.

[*English*]

I couldn't resist it.

[*Translation*]

You still had to go through transformations.

[*English*]

You mentioned in your report that a hospital had to switch to accrual school, so how did you make the transition? All the provincial departments had to follow your lead, so can you tell us how it was gradually implemented throughout the provincial structure?

•(1715)

**Mr. Greg Orencsak:** That's a great question that speaks to the breadth and the scope of the changes. Some of these changes followed the province's transition to accrual accounting. We consolidated hospitals, school boards, and colleges onto the province's books.

Obviously, that took, first and foremost, a close working relationship and partnership with our Auditor General in terms of looking at the appropriate control assessments for those entities to make sure that we picked the right entities to consolidate under Ontario's legislative governance and accountability frameworks.

As you know, there is some variation around that across Canada. Some provinces also consolidate universities, for example. We don't do that in Ontario, based on the control assessment that was done. That's something that we're obviously always looking at and that our Auditor General is looking at.



It takes a very close and effective working relationship with those funding partners to move to consolidate their results onto the province's books and financial statements. The Ministry of Education, the Ministry of Training, Colleges and Universities, and the Ministry of Health have those relationships. We rely on the work of those entities' independent auditors to report on their results, and then we consolidate those results onto our books.

Because the results are consolidated, I think governance and accountability become particularly important, because we don't want to plan for balanced hospital budgets, for example, if hospitals then report large deficits. We have to work closely with those partners to understand their financial projections and at times provide the means by which they can help achieve their financial commitments and outcomes so that we're not surprised at the end of the day when their results are consolidated onto our books.

**Hon. Steven Blaney:** You had to kind of drill down the methodology to all of the parts of the provincial government and make sure that it was a uniform method of accounting throughout the different entities of the provincial government.

**Mr. Greg Orencsak:** Absolutely.

**The Chair:** Sir, you've less than 30 seconds.

**Mr. Greg Orencsak:** I will be brief.

I think there are two sides to that coin. Obviously the mechanics have to align so that you can put the pieces together, but that doesn't guarantee the outcomes. We also need effective governance and oversight so that those entities are able to live within their budget by delivering on their plans.

**The Chair:** Thank you.

Gentlemen, our final intervention will come from Madam Murray.

Madam Murray, welcome back to our committee.

**Ms. Joyce Murray (Vancouver Quadra, Lib.):** Thank you. I will be sharing my time with Mr. Drouin.

I want to follow up on the question that Mr. Grewal was asking about votes.

It's in terms of the appropriations for broad purposes. I'm not speaking about the actual act of voting, but the categories of approval. As an example, in Treasury Board, vote 5 is contingencies, and we just talked about vote 16 as government-wide initiatives, and vote 25 is operating budget carry forwards. Other ministries have their very broad categories of vote.

Do you have that same type of broad category, as opposed to appropriations that are linked to specific programs? When you shifted to the accrual method, did it affect the structure of appropriation in terms of votes that parliamentarians were considering?

• (1720)

**Mr. Greg Orencsak:** It's a great question. I have just a couple of comments.

Vote structures are not static constructs; they change with time. They change as programs are introduced or changed, for example, or

when reporting and accounting centres change. We talked about the example of reflecting tax expenditures as a voted appropriation in our estimates.

The votes are reviewed and approved by our Treasury Board and they're done on a ministry-by-ministry basis. There isn't a general template for how a ministry's vote and item structure are put together. There is some flexibility and to some extent some varying level of detail in what those votes look like, but by and large, I think we have a fair bit of program-level detail associated with our votes. I don't have the number off the top of my head, but we have many, many votes in each of those ministries, so those general overarching categories of votes are rare or more unusual, and certainly not the norm.

**Ms. Joyce Murray:** Is there a downside around having too much specificity and a diminished ability to transfer among programs?

**Mr. Greg Orencsak:** As the votes get more specific, there is obviously a downside of less flexibility when you're looking to transfer money between votes.

[Translation]

**Mr. Francis Drouin:** Thank you.

To answer Mr. Blaney's questions, I would say that the reason may be that the Conservatives left us post-dated checks.

[English]

I have one quick question. I noticed that in the budget cycle, you have 12 days to submit the main estimates. What is the rationale for the 12 days?

**Mr. Greg Orencsak:** It's a good question. It's in our standing orders.

What is different from an Ontario perspective is that the estimates are developed in conjunction with the budget process. If we weren't able to do that, it would be very difficult to table estimates 12 days after the tabling of the budget and to make those estimates line up with the figures in the budget. The 12 days are a part of the Standing Orders. It has been like that for a while.

**Mr. Francis Drouin:** Okay. How much time do I have?

**The Chair:** You have less than 30 seconds.

**Mr. Francis Drouin:** Thank you. I don't have time to get into the

**The Chair:** Thank you very much.

Gentlemen, thank you so much for taking the time to be with us today. The information that you've transferred to our committee has been very, very helpful.

Once again, good luck back in your home province. You are excused.

We will suspend for about two minutes and go into committee business for about a five-minute period.

[Proceedings continue in camera]





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