

**ONTARIO GOVERNMENT REVIEW PROMISES GREATER FINANCIAL TRANSPARENCY AND ACCOUNTABILITY**

On November 15, 2018, the new government of Ontario presented *A Plan for the People: Ontario Economic Outlook and Fiscal Review 2018*, which is a comprehensive and wide-ranging summary of current and intended actions.<sup>1</sup>

The government highlighted the need to reduce the province's debt burden, and to restore the public's trust in government by enhancing financial transparency and accountability.

This paper will focus on matters that relate to electricity pricing and the regulation of auto insurance.

**Ontario's Debt Burden**

Reducing the level of debt is the primary concern of the Progressive Conservative government. The current year forecast is for a debt of \$347 billion, and interest payments of \$12.5 billion. The net debt-to-GDP is estimated at 40.8%, compared to a ratio of 16% for B.C.'s taxpayer supported debt, or 24.6% for the total government debt.<sup>2</sup>

The interest payments on the debt are the fourth largest item in the provincial budget and threaten the government's ability to adequately fund services.

**Electricity Prices**

The government has altered the financing arrangement of the Liberal's "Fair Hydro Plan" and will treat the money borrowed to finance the temporary residential ratepayer subsidy as government debt rather than a deferred revenue asset. This conforms to Auditor General Lysyk's view of the proper accounting treatment,<sup>3</sup> and will reduce interest payments by some \$4 billion because of the lower interest rate paid by government.

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<sup>1</sup> <https://www.fin.gov.on.ca/fallstatement/2018/fes2018-en.pdf>

<sup>2</sup> Ibid., p. 13; [https://www.bcbudget.gov.bc.ca/2018/bfp/2018\\_Budget\\_and\\_Fiscal\\_Plan.pdf](https://www.bcbudget.gov.bc.ca/2018/bfp/2018_Budget_and_Fiscal_Plan.pdf) p. 4.

<sup>3</sup>

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_43\\_22\\_october\\_2017/pdf/occasional\\_paper\\_no\\_43\\_22\\_october\\_2017.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_43_22_october_2017/pdf/occasional_paper_no_43_22_october_2017.pdf)

The adoption of the rate subsidy debt as taxpayer debt also conforms to the recommendations of the independent financial commission of inquiry.<sup>4</sup>

The Commission's findings reaffirm the position of the Auditor General of Ontario ... that the previous government's 2018 Budget numbers were "not a reasonable presentation of Ontario's finances."<sup>1</sup> With the findings of the Commission, the Public Accounts of Ontario 2017–2018 show that Ontario ran a \$3.7 billion deficit in 2017–18, compared to the balanced budget projected in the previous government's 2017 Budget. In addition, the Auditor General provided a clean audit opinion on the Public Accounts of Ontario 2017–2018 for the first time in three years.<sup>5</sup>

The report also commits to improving openness and transparency in the government's financial reporting and to working with the auditor general to restore accountability and trust in the Province's finances.<sup>6</sup>

The government has not reversed the electricity rate subsidy instituted in 2017. In fact, the government promised a further 12% reduction during the election. Earlier, the government announced the cancellation of some 750 new renewable energy contracts, which it claimed would save ratepayers approximately \$790 million.<sup>7</sup>

This planned cost avoidance has been incorporated into the 12% "reduction," which suggests that there is some flexibility in interpreting the target reduction.

The government also promised to review current electricity pricing for industrial users with wording that suggests that some form of subsidy may be in the works.<sup>8</sup>

## **Auto Insurance Rates and Regulation**

The high cost of auto insurance has been a serious political issue for many years. The previous government adjusted some provincial regulations to lower certain benefits, and launched a major review of how auto insurance is structured and how claims are handled.<sup>9</sup>

The new government announced a review of how auto insurance rates are regulated. The review will be conducted with the new regulator the Financial Services Regulatory Authority. The review will "examine practices in other jurisdictions and identify opportunities to achieve greater efficiencies and introduce more competition in the

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<sup>4</sup>[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_ont\\_govt\\_agrees\\_with\\_ag\\_21\\_sept\\_2018/pdf/commentary\\_ont\\_govt\\_agrees\\_with\\_ag\\_21\\_sept\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ont_govt_agrees_with_ag_21_sept_2018/pdf/commentary_ont_govt_agrees_with_ag_21_sept_2018.pdf)

<sup>5</sup> <https://www.fin.gov.on.ca/fallstatement/2018/fes2018-en.pdf> p. 15.

<sup>6</sup> Ibid., p. 30.

<sup>7</sup> Ibid., p. 48.

<sup>8</sup> "The government understands the challenges to Ontario industry caused by the high cost of electricity." Ibid., p. 49.

<sup>9</sup> <https://news.ontario.ca/mof/en/2017/04/ontario-releases-report-on-auto-insurance.html>

system.”<sup>10</sup> The government states that the regulatory framework should allow for a more “modern” insurance sector, including

- Electronic communications, and electronic proof of auto insurance;
- Innovative insurance products, such as usage-based insurance technology; and
- Full electronic commerce, similar to what is already provided by other financial institutions, including banks and credit unions.<sup>11</sup>

The government also promised to end rate “discrimination” based on rating territories. Geographic territories are one of the factors in ICBC’s assessment of premium risk.

Early reaction by the insurance industry to the auto insurance changes has been generally positive.<sup>12</sup>

## Summary

The new government of Ontario has unveiled an ambitious agenda focusses on reducing the province’s debt and promoting private sector economic activity. The emphasis on financial transparency and accountability is in response to the previous government’s circumvention of generally accepted accounting principles in an attempt to present a better financial picture.

It appears that high electricity and auto rates will continue to be areas of public –and therefore political–concern.

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission’s recent reviews of both ICBC’s and BC Hydro’s rate requests.

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<sup>10</sup> Ibid., p. 76.

<sup>11</sup> Ibid., p. 77.

<sup>12</sup> [https://www.insurancebusinessmag.com/ca/news/breaking-news/industry-responds-to-ontarios-auto-insurance-shakeup-116431.aspx?utm\\_source=Pinpointe&utm\\_medium=20181116&utm\\_campaign=IBC-Morningnewswire&utm\\_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173](https://www.insurancebusinessmag.com/ca/news/breaking-news/industry-responds-to-ontarios-auto-insurance-shakeup-116431.aspx?utm_source=Pinpointe&utm_medium=20181116&utm_campaign=IBC-Morningnewswire&utm_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173)

