

Increasing Transparency in Crown Corporation Divestment

Submitted by the Timmins Chamber of Commerce

Co-sponsored by the Thunder Bay Chamber of Commerce, Greater Sudbury Chamber of Commerce, North Bay and District Chamber of Commerce, and the Sault Ste. Marie Chamber of Commerce

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Issue:

Provincial Crown corporations may be divested without a complete, comprehensive business case or socio-economic impact study. This lack of transparency or oversight can inadvertently incur considerable costs, both short- and long-term, to Ontario taxpayers and businesses.

Background:

Wholly owned by the province, Crown corporations serve particular policy needs or services that may otherwise go unfilled by the private sector. However, government officials are not required to conduct a rigorous business case or socio-economic impact study prior to divesting said corporation, potentially generating a host of unforeseen costs and a lack of awareness regarding its overall impact.

A key example of the resulting uncertainty is the government's attempts to divest the Ontario Northland Transportation Commission (ONTC). This Crown agency provided telecommunication, rail refurbishment, freight rail and passenger motor coach services, primarily throughout northeastern Ontario.

In March 2012, the provincial government announced the divestment of the ONTC and its subsidiaries as a cost-saving measure. This resulted in an immediate outcry from many, including industrial firms who indicated the lack of freight rail would pose steep financial and operational challenges. Similarly, the sale of Ontera – the ONTC's telecommunications firm – sparked grave concerns from businesses in many northern communities where Ontera was the sole provider of Internet services.

A December 2013 report by Ontario Auditor General Bonnie Lysyk revealed that the government only built an initial business case four months after the divestment announcement, and subsequent iterations of the business case continued to lack details around the true cost of the move.

The report indicated that the government's projected short-term savings of \$265.9 million would instead represent an immediate cost of \$820 million.¹ Moreover, the Auditor General's investigation into the divestment found that "there may well be socio-economic benefits to justify subsidizing the ONTC."²

While the province relented on much of the divestment, it still moved ahead with the sale of Ontera in 2014, and the Auditor General's concerns held true: in September 2015, it emerged from a government Public Accounts report that the province took a \$61-million loss for the sale of Ontera, which was divested for \$6 million – a figure which failed to cover even the \$6.5-million fees for lawyers and consultants to advise it on the sale.³

¹ Office of the Auditor General of Ontario, "2013 Annual Report," Dec. 10, 2013

² *ibid.*

³ Canadian Press, "Liberals 'bungled' Ontera sale, new figures show", Sept. 29, 2015

<http://www.cbc.ca/news/canada/sudbury/liberals-bungled-ontera-sale-new-figures-show-1.3249108>

Other divestment-related issues have since continued to emerge, particularly around the lack of any mechanism to ensure that any such decision complies with the Crown's duty to consult with affected Indigenous communities. The 2015 budget bill approving the sale of Hydro One failed to adhere to this standard, despite this corporation having been used to develop important partnerships with Indigenous communities to deliver significant infrastructure projects and provide important economic development opportunities.⁴ This drew strong rebukes from the Chiefs of Ontario, which argued the province should have engaged in "extensive consultation" with Indigenous governments, given that numerous transmission and distribution lines run through their territory.⁵

Recommendations:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Commit to divesting a Crown corporation only after producing a comprehensive business case and socio-economic impact study, subject to stakeholder review; and
2. Ensure that, where applicable, the Crown undertakes its duty to consult with any Indigenous communities affected divestment or privatization of Crown corporations.

⁴ Sarah Mojtehdzadeh, "Ontario failed duty to consult First Nations on Hydro One sale, chief says", Toronto Star, Aug. 18, 2015 <https://www.thestar.com/news/gta/2015/08/18/ontario-failed-duty-to-consult-first-nations-on-hydro-one-sale-chief-says.html>

⁵ *ibid.*