

RE: C.D. Howe report on Ontario's budget and financing coming soon

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Date: Mon, 30 Apr 2018 17:58:42 -0400

Good afternoon,
We've been informed the Fiscal Transparency Report will be released at 6 a.m. tomorrow.
I will send it around tomorrow morning.

Jonathan

From: Lepage, Guy (CAB)
Sent: Friday, April 27, 2018 3:01 PM
To: Gallant, Gabrielle (OPO); Vlahos, Shazia (OPO)
Cc: Sumi, Craig (CAB); McMichael, Rhonda (CAB); Evans, Kirsten (CAB); Kwamena, Boafoa (CAB); Pontikis, Maria (CAB); Heitshu, Tania (CAB); @CAB-Issues
Subject: C.D. Howe report on Ontario's budget and financing coming soon

Hello Gabrielle and Shazia.

C.D. Howe published an op-ed piece this morning in The Globe and Mail that was highly critical of the province's accounting practices. I have included the op-ed piece below.

C.D. House is expected to release its own analysis of the province's budget and accounting practices in the near future but we don't have a date yet.

Ministry of Finance is in contact with C.D. Howe to exchange information.

As soon as they can, MOF will draft an issue note and we will share when it is ready.

Let me know if you have any questions.

Guy

Accounting tricks have no place in government

(GLOBE AND MAIL, By ALEXANDRE LAURIN, WILLIAM ROBSON)

William Robson is president and CEO of the C.D. Howe Institute, and a member of the Auditor-General of Ontario's panel of senior advisers.

Alexandre Laurin is director of research at the C.D. Howe Institute.

This week's review of the Ontario government's pre-election financial report from the provincial Auditor-General reconfirmed what The Globe and Mail reported last weekend:

The government is using an accounting trick to shrink its reported deficit and debt. It is hiding the cost of borrowing to subsidize electricity prices over the next few years by inventing an "asset" – revenue from the higher prices Ontario's electricity consumers will pay later on – to keep the borrowing from showing in the government's bottom line.

Auditor-General Bonnie Lysyk's review concludes that the pre-election report is not a reasonable presentation of Ontario's finances. Her concerns deserve wide attention – not just in Ontario, but throughout Canada.

Although electricity is not the only element in the pre-election report Ms. Lysyk comments on, the province's Fair Hydro Plan – and the way the government is trying to hide its

costs – is the most concerning problem she finds.

The plan will subsidize 25 per cent of the cost of households' electricity bills for more than 10 years. But the government plans to record only 9 per cent of this subsidy in its spending for those years.

The remaining 16 per cent will be offset by a recently invented asset: planned future excess electricity revenues that would come from charging higher electricity rates to future consumers. Because the government has a legislated right to charge higher electricity rates to future customers, it claims it can book these future excess revenues as if they were already earned.

But nobody knows for sure what future prices will be – electricity policy has been anything but stable in Ontario – and the revenues will depend on power that may or may not ever be generated and sold. Inventing assets that turn out to be worth less or nothing is a hallmark of scams in the private sector, and the fact that Ontario can legislate its own accounting standards does not make it okay for a government.

For most observers, this budget's sleight-of-hand would be a slap in the face of transparency. The Auditor-General of Ontario strongly denounced the practice, arguing it runs against generally accepted standards of accounting for governments. And other governments could be tempted to pull this manoeuvre if Ontario gets away with it. But one question on many people's minds is this: Why should we care?

Governments are elected for a short period of time, and their primary incentive is to focus on re-election through the welfare of their voters, who demand immediate results.

Yet government decisions affect the welfare of many generations to come. Voters concerned by these intergenerational transfers have only a few indicators to rely on to evaluate their magnitude. The primary indicator is the increase in accumulated deficits. Despite the Auditor-General's recommendations, the Ontario government continues in its budget to understate the true value of the deficits for years to come. After properly accounting for the impact of the Fair Hydro Plan and certain employee pension assets, annual deficits reported in last month's budget through to 2021/22 would total more than \$50-billion, double the \$25-billion shown in the budget. For a government that had pledged a balanced budget, this makes a sizable difference.

Not all intergenerational transfers are the same. Some are backward-looking. For example, social security benefits for injured war veterans are easily defensible. Some forward-looking transfers, such as running government surpluses to reduce the burden of the public debt on future generations, are also well grounded. Others have their origins in demographic changes; for example, an aging population means that the cost for financing the public health-care system will be greater on future generations.

But other intergenerational transfers stand on shaky moral grounds because they are pure windfalls for the current cohorts of voters at the expense of future generations. The generous subsidization of electricity rates for current customers, which will mainly be paid for by the next generation of Ontario families, clearly enters this category. Yet most of this debt is nowhere to be found on the government's books.

If such blatant intergenerational transfers can be hidden from view, how can voters hold their governments to account? With election time coming, they can demand responsible accounting practices. We condemn misleading financial statements in the private sector. They are no more acceptable from governments.

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