FW: Media Event: "Focus on Finance" - MPP Vic Fedeli

From: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Mon, 07 May 2018 10:43:04 -0400

Cindy,

FYI on the below.

Gabrielle

From: Tharani, Alisha (TBS)
Sent: May 7, 2018 10:41 AM
To: Rubin, Jack (TBS); Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Walsh, Laura M. (TBS); Liu, Mary (TBS)
Cc: @TBS-L-Issues and Media; Ovenden, Erin (TBS)
Subject: Media Event: "Focus on Finance" - MPP Vic Fedeli

Hi all,

As noted in this morning's media clips, MPP Vic Fedeli will hold a media event this afternoon at 1:00pm to discuss his latest edition of "Focus on Finance" .

MPP Fedeli's 126 page document includes sections such as "House of Cards," "Gas Plant Scandal," and "The State of Ontario's Finances," and heavily references the Financial Accountability Officer and Auditor General. Key issues of particular interest to TBS include criticisms of Fair Hydro Plan accounting (and government advertising), IESO accounting, pension asset accounting, and the potential for an adverse opinion from the Auditor General on the 2017-18 Public Accounts.

See below for the conclusion of the report for ease of reference, which provides an overview of the key issues raised in the report.

We will monitor the press conference this afternoon and send out transcripts once available.

Best,

Alisha

Alisha Tharani
Senior Issues & Media Advisor | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

From Vic Fedeli's "Focus on Finance" :

MY FINAL THOUGHTS

There have been a lot of numbers presented over the last 124 pages. My final thoughts will sum-up what we've learned so far, drill down deeper, and present what the experts have told us is the real state of Ontario's finances.

The FAO

If we tally everything we've learned over the last 12 months from the Financial Accountability Office (FAO) and the Auditor General (AG), we come to a vastly different set of numbers than those provided by the government. In the 2017 budget, the government forecast reaching balance by 2017-18, to be followed by consecutive years of growing surpluses. The government shifted significantly in the 2018 budget; claiming to have balanced, but forecasting a return to deficits for the next six years. However, neither budget took into account the analyses and forecasts of the FAO, nor the explicit instructions from the AG.

Even with the government's lofty 'growing surpluses' promise in the 2017 budget, the FAO responded by forecasting deficits beginning in 2018-19. This is due to "the absence of one-time, non-tax revenues and higher program expenses." In their later fall economic report, they revised downward adding, "This is a significant deterioration since the FAO's spring outlook." They re-emphasized there will be loss of the one-time revenues and moderate tax revenue growth, resulting in a return to deficit in 2018-19. Of more concern is their forecast of a steady deterioration in the budget deficit over the outlook, reaching $3.6 billion by 2021-22.

They end their report with "the government has not adopted the Auditor General's recommended accounting framework, reducing the transparency and reliability of Ontario's fiscal projections." They are referring to the ongoing disagreement between the government and the Auditor General over the appropriate accounting treatment for the government's jointly sponsored pension plans, and the AG's claim that the government is not correctly accounting for the full cost of the Fair Hydro Plan.

The AG

In the fall of 2017, the Auditor General of Ontario issued a qualified audit opinion on the Consolidated Financial Statements of the Province of Ontario, saying the statements significantly understated the 2016-17 deficit, as well as the Province's net debt. The Government recorded the surplus for two pension funds it co-sponsors (Ontario Teachers' Pension Plan; Ontario Public Service Employees' Union Pension Plan) as a net pension asset. According to the AG, the deficit is understated by $1.44 billion for 2016-17 and the net debt is understated by $12.43 billion for 2016-17.

In addition, the AG said the government inappropriately recorded the transactions between power generators and power distributors of the Independent Electricity System Operator. As a result, other assets and other liabilities in the consolidated financial statements are both overstated by $1.65 billion in 2016-17.

With respect to the Fair Hydro Plan (FHP), the Auditor General created a Special Report. In it the

AG says the government created an unnecessary, complex financing structure to keep the true financial impact of most of its 25% electricity-rate reduction off the Province's books. "The accounting proposed by the government is wrong and if used would make the province's budgets and future consolidated financial statements unreliable," said AG Bonnie Lysyk. She estimates the total cost of the scheme to be $39.4 billion over 30 years, including about $4 billion in extra interest charges.

How that all adds up

If you take the government's numbers and include the accounting regulations of the Auditor General, which removes the pension funds and adds in the cost of the FHP, the government's budget deficit figure is off by at least $5-6 billion over each of the next four years.

If you include those same accounting regulation calculations, and add in the forecast budget (deficit) estimates of the Financial Accountability Office, the government's stated budget deficit figure is off by an additional $2-4 billion over each of the next four years! We will get a clear picture when the Auditor General's review of the pre-election finance report is released (likely while this book is at the printers).

Under either scenario (and we can be certain both the FAO and the AG will update their numbers now that the budget has been released), they are a far cry from the numbers presented by the government of Ontario. And that's the final point to be made. The government's numbers simply can't be trusted. Recall the words I underlined early in the book. Secrecy. Deterioration. Dangerous precedent. Unlikely assumptions. Significantly understated. Inappropriately. Hide. Unreliable. Conceal. Distort. Falsely. Deceptive. Obstructive behaviour. Bogus. Those were all words used to describe the government's accounting. Printed for all to read; published in reports by the Independent Officers of the Ontario Legislature, our Auditor General and Financial Accountability Office. Again, this should leave you with no doubt that the government's numbers simply can't be trusted.