RE: AG on Pre-Election report

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Date: Wed, 25 Apr 2018 10:47:17 -0400
Attachments: 2018Pre-Election_en.pdf (3.28 MB); newsrelease_2018Pre-Election.pdf (163.85 kB)

Good morning,
The release and report are attached. Please see below for the text of the AG's release.

Government Statement on Finances "Not Reasonable": Auditor General
(TORONTO) The Ontario government's presentation of the province's finances in its Pre-Election Report last month is "not reasonable" because it understates Ontario's deficit and expense estimates by billions of dollars over the next three years, Auditor General Bonnie Lysyk said in a report today.

The Fiscal Transparency and Accountability Act, 2004, in conjunction with Ontario Regulation 41/18, requires the Ontario government in a fixed election year to release a Pre-Election Report on the province's finances that includes revenue and expense projections for the next three years. The same Act requires the Auditor General, after passage of Ontario Regulation 41/18, to review the Pre-Election Report and promptly release a report outlining the results of her Office's review of whether or not the government's fiscal projections are reasonable.

Lysyk found that the government understated expenses, thereby underestimating the true size of future annual deficits. Specifically, the deficit forecast should be higher by 75% in 2018/19 ($11.7 billion instead of $6.7 billion), 85% in 2019/20 ($12.2 billion instead of $6.6 billion), and 92% in 2020/21 ($12.5 billion instead of $6.5 billion).

The expense understatements relate to two items:

• The government failed to properly reflect the true financial impact of its Fair Hydro Plan's electricity rate reduction in its estimates.

• The government forecast pension revenues relating to the Ontario Teachers' Pension Plan to reduce expenses, and understated future expenses for the Ontario Public Service Employees' Union Pension Plan, even though the government does not have the unilateral right to use funds in these pension plans without first reaching a formal agreement with the plans' other sponsors. In fact, the government continues to make contributions to the plans of approximately $2 billion annually.

"When expenses are understated, the perception is created that government has more money available than it actually does," Lysyk writes in her report. "Government decision-makers might therefore budget more money to be spent on initiatives and programs, when that money is actually needed to pay for expenses the government has failed to record properly. Therefore, more money will need to be borrowed to pay for the unrecorded expenses even when government reports an annual surplus or a balanced budget.

"A perception is also created of an improving trend in the relationship between the government's financial obligations and its capacity to raise funds to meet them, when the burden of net debt is actually increasing."

Lysyk did find that, aside from the two items resulting in significant understatement of expenses and deficits, "the government based its estimates of revenues, program expenses and interest on debt on cautious assumptions, as required by the Act."

Lysyk notes that actual financial results will undoubtedly differ from the Pre-Election Report estimates due to the uncertainty surrounding future events, such as renegotiation of collective agreements in the government and the broader public sector, and the future costs of new initiatives where the program uptake is difficult to predict.

From: Colford, Jonathan (CAB)
Sent: April 25, 2018 10:05 AM
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Subject: AG on Pre-Election report

Hi Gabrielle,
You may have seen this, but attached is a copy of TBS's house note on the AG's review of the pre-election report on Ontario's finances.
The report is expected to be tabled at 10:30 a.m. I'll send around a copy once it's posted online, along with the AG's news release.

Summary from TBS:

- On April 25, 2018, the AG issued her report on the results of her review. The Report concludes that the PER is not a reasonable presentation of Ontario's finances, determining that the Fair Hydro Plan and accounting of net pension assets understates expense estimates and contributes to an understatement of Provincial debt to GDP.
  - After adjusting for these items, the Report asserts that the annual deficit figures are $11.7B in 18-19, $12.2B in 19-20, and $12.2B in 20-21.
- With the exception of these two items, the Report concludes the majority of the province's estimates regarding revenue and program expenses are based on cautious assumptions.
- The Report also concludes that new initiatives and the expansion of programs presented in the medium-term fiscal plan are based on reasonable assumptions, but identifies two potential expense risks, including:
  - Compensation costs could differ from estimates as a number of public sector collective agreements are up for renegotiation over the next three years; and
  - The roll-out of new programs could face upward pressure due to higher than forecast uptake of entitlement programs

- The April 25, 2018 delivery situates the AG's report in close proximity to several other high-profile third-party reports and release of fiscal planning documents including:
  - The AG's Special Report on the Independent Electricity System Operator (IESO), posted to the AG's website on April 11, 2018;
  - The government's tabling of the 2018-19 Expenditure Estimates on April 23, 2018;
  - The release of the Financial Accountability Office's 2018 Economic and Budget Outlook report, anticipated before the writ of election (May 9, 2018); and
  - Two reports to the legislature from the Standing Committee on Public Accounts, on Chapters 2 (Public Accounts) and 5 (Government Advertising) of the AG's 2017 Annual Report.

<u>Key messages:</u>

- The Pre-Election Report on Ontario's Finances, introduced in 2007, was the first of its kind in Canada and today remains one of only a few such documents in the world.
- The purpose of the 2018 Pre-Election Report on Ontario's Finances is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the Ontario general election.
- The province is committed to providing clear and accurate financial reports that support transparency and accountability in reporting to the public and the legislature.
- We appreciate the work of the Auditor General in ensuring the public receives an independent assessment of the province's finances in advance of the next Ontario general election.
- The Auditor General concludes that the report is not a reasonable presentation of Ontario's finances because of the accounting treatment of the net pension assets of the two jointly sponsored pension plans and use of rate-regulated accounting for the component of the Fair Hydro Plan that is recoverable from the ratepayer.
- The difference of opinion in accounting treatment on net pension assets and the Fair Hydro Plan are not new issues. The disagreement on pension accounting was previously reported by the Auditor General in her audit opinions on the Public Accounts. The disagreement on the accounting for the Fair Hydro Plan was reported in her Special Report on the Fair Hydro Plan released in October 2017.
- It is important to note that with the exception of the two accounting disagreements, the Auditor General has determined that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on cautious assumptions, as required by the Fiscal Transparency and Accountability Act.
- Ontario's fiscal policy is based on cautious assumptions and recognizes the need for flexibility to respond to changing circumstances. During this period of rapid economic change, the fiscal plan considers the impact of today's choices on different groups within the province and on future generations.