Media Scan – Auditor General’s Response to the Pre-Election Report

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In scathing pre-election report, Ontario auditor general says deficit is $11.7B, not $6.7B

Toronto Star
By **ROBERT BENZIE** Queen's Park Bureau Chief
Wed., April 25, 2018

The accounting disagreement stems from a longstanding dispute over whether around $11 billion in the OPSEU and the Ontario Teachers' pension plans can be counted toward the bottom line.

Ontario's fiscal watchdog is again questioning the government's accounting, warning the province's deficit projections are far greater than outlined in last month's budget.

Auditor general Bonnie Lysyk, who has an ongoing accounting dispute with Premier Kathleen Wynne's Liberals, said Wednesday that this year's shortfall is $11.7 billion, not $6.7 billion, as Finance Minister Charles Sousa forecast March 28.

"When expenses are understated, the perception is created that government has more money available than it actually does," Lysyk wrote in a scathing 27-page pre-election report to the Legislature.

"Government decision-makers might, therefore, allocate money to initiatives and programs that is actually needed to pay for expenses the government has failed to record properly," she continued.

Lysyk calculated that the deficit forecast for next year is $12.2 billion, not the $6.6 billion Sousa predicted, and for 2020-21 it's $12.5 billion, not $6.5 billion.

"More money will need to be borrowed to pay for the unrecorded expenses even when the government reports an annual surplus or a balanced budget."

Her report is a political gift to Progressive Conservative Leader Doug Ford and NDP Leader Andrea Horwath as Ontarians head to the polls in six weeks.

The accounting disagreement stems from whether around $11 billion in the government co-sponsored Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan can be counted toward the bottom line.

While Lysyk and her predecessors had booked the pension holdings as an asset starting in 2002, she changed her mind two years ago.

"I had my staff review that asset much more than in past years," she told the Star at the time. She concluded that they should not be considered assets, because the government doesn't have ready access to the funds.

It is unclear whether the Progressive Conservatives or the New Democrats would adopt Lysyk's accounting practice and not count the pension funds if either party topples the Liberals in the June 7 election.

Wynne conceded Wednesday there is an "ongoing discussion" with the auditor general over the accounting "disagreement."

"I know one of the discussions is over the Fair Hydro Plan. We made a decision that we needed to reduce electricity bills by 25 per cent. We have done that," said the premier.

"We've kept that debt within the electricity system. That is the responsible step that we have taken," she said.

Lysyk has had a fractious relationship with the governing Liberals in recent years.

Aside from being at odds with the government over its Fair Hydro Plan scheme to borrow money to reduce electricity rates by 25 per cent, she has railed against the Liberals diminishing her authority when it comes to overseeing government advertising.

Ontario Liberals understating deficit by billions: auditor

Auditor General Bonnie Lysyk delivers her pre-election report on government finances
CBC News · Posted: Apr 25, 2018 11:27 AM ET | Last Updated: 2 minutes ago

The Kathleen Wynne government is low-balling its budget deficits by billions of dollars, according to a report released Wednesday by the province's auditor general, just six weeks ahead of the provincial election.

The Liberal government's projected deficit of $6.7 billion for 2018-19 should actually be $11.7 billion, says Auditor General Bonnie Lysyk in her pre-election report on government finances.

- **Kathleen Wynne gambles Ontario voters won't mind a big deficit**

Lysyk said the government failed to account properly for the financial impact of its Fair Hydro Plan on provincial coffers and improperly treated the revenues and expenses related to two provincial pension plans.

For the same reasons, the auditor says the Liberals are underestimating the deficits in future years:

- $6.6 billion deficit in 2019-20 should be $12.2 billion
- $6.5 billion deficit in 2020-21 should be $12.5 billion

The Liberals blame the differences on "ongoing technical accounting disputes," according to a statement from Finance Minister Charles Sousa and Treasury Board President Eleanor McMahon.

"The government's opinions on these two matters are well supported by internal and external experts, and have always informed the government's ongoing reporting on its fiscal status," said the statement.

Provincial law requires the auditor to review the government's financial projections ahead of each scheduled election to determine whether the figures are reasonable. The law was brought in under former premier Dalton McGuinty after the previous PC government left the province with a hidden deficit.

Ontario’s books off the mark by billions: Auditor General

iPolitics.ca

By Marieke Walsh. Published on Apr 25, 2018 11:21am

According to Ontario’s auditor general, the province’s finances are “not reasonable” and off the mark by billions of dollars.

In the latest shot across the bow at the government, Auditor General Bonnie Lysyk said the Liberals’ deficit and expense estimates are severely understated.

READ MORE: Ontario minister downplays feud between auditor general and energy panel

The Financial Transparency and Accountability Act — brought in by the Liberal government in 2004 — requires Lysyk’s office to review a pre-election report issued by the government in election years.

She found the deficit forecasts should be close to double what the Liberals released in their March budget.

For this year, the deficit should be 75 per cent higher: from $6.7 billion to $11.7 billion. Next year she said the books should show a $12.2 billion deficit compared to the $6.6 billion the Liberals accounted for. And in 2020-21 Lysyk said the budget should be showing a $12.5 billion deficit projection instead of $6.5 billion.

In a press release Lysyk said the accounting created the “perception” that the government’s finances are improving. But instead the “burden of net debt is actually increasing,” according to Lysyk.

READ MORE: Ontario Liberals stake re-election hopes on six years of deficits

The discrepancy is attributed to a long-standing dispute between the auditor general’s office and the Liberal government over how cabinet is accounting for the debt from its pledge to cut hydro rates by 25 per cent and accounting from two pension plans.

Speaking to reporters before the report was released, Premier Kathleen Wynne said the issues raised by Lysyk are “old discussions and they are ongoing.”

Wynne defended her government’s decision to leave the debt from cutting hydro rates with Ontario Power Generation. She said it was “the responsible step” to leave the debt within the electricity system.

Lysyk has said that move cost taxpayers more in borrowing rates and hides the debt from the province’s books.

“There is a disagreement between accountants and it has been a disagreement for some time,” Wynne said.

Apart from the Fair Hydro Plan and pension plan accounting concerns, the auditor general found the rest of the government’s expense and revenue projections were based on “cautious assumptions, as required by the Act.”

More to come…

Ontario government understates deficit by billions: auditor general

The Canadian Press
APRIL 25, 2018 08:32 AM

TORONTO — Ontario's auditor general says the Liberal government's statements on the province's finances understate its deficit by billions.

In a pre-election report released today, Bonnie Lysyk also says the government has not accurately reflected the true cost of its borrowing plan to cut hydro rates by 25 per cent, and is raising questions about the way it accounts for revenues related to two teacher pension plans.

As a result, Lysyk says the government's deficit projections are off by 75 per cent in 2018-2019, jumping to 92 per cent in 2020-2021.

Lysyk says the 2018-2019 deficit projected by the government was $6.7 billion and will instead by $11.7 billion.

The deficit projections for 2020-2021 are $6.5 billion, but Lysyk says that figure will actually be $12.5 billion.

Premier Kathleen Wynne downplayed the discrepancy today, calling it a long-standing "accounting dispute" between her government and the auditor general.

Auditor General Slams Government’s Books as “not reasonable” in Pre-Election Report

25.04.2018 Jessica Smith Cross 0

Ontario is heading into an election with books that don't accurately reflect the state of its finances, according to the province's auditor general.

Bonnie Lysyk said the government's finances — recorded in the 2018 budget and a pre-election finance report — underestimate the true size of future deficits, because they fail to properly account for billions in debt being used to lower Ontarians' hydro bills and certain joint pension assets.

In a report tabled Wednesday, Lysyk said the deficit forecast for this fiscal year should be $11.7 billion, rather than the $6.7 billion. As the borrowing connected to the Fair Hydro Plan is forecast to grow in coming years, the discrepancy between the books and the true debt grows too, according to the auditor. She projects the debt to hit $12.5 billion in 2020 — nearly twice the $6.5 billion projected by the government.

“When expenses are understated, the perception is created that government has more money available than it actually does,” Lysyk wrote. “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.”

In a media scrum before the report was released, Premier Kathleen Wynne characterized the issue as a mere disagreement with the auditor general over accounting. “Those are old discussions, and they're ongoing,” she said.

But the Progressive Conservatives immediately slammed the government over the auditor's report.

“The auditor's scathing reporting is an indictment of this Liberal government,” said PC parliamentary leader Vic Fedeli in question period, mere minutes after the report hit the table.

-More to come

Ontario deficit will be double what Wynne claimed: Auditor general

Toronto Sun
Artonella Artuso
Wed., April 25, 2018

This year's provincial deficit will be almost double what the Kathleen Wynne government says it will be, Ontario's fiscal watchdog has concluded.

The government has dramatically understated the amount of debt it plans to take on, making the government finances look better than they really are, Ontario auditor general Bonnie Lysyk finds in her pre-election review of the province's books.

"We concluded that the Pre-election Report is not a reasonable presentation of Ontario's finances … resulting in understated deficits," Lysyk's report says.

In the spring budget, the Ontario Liberal government projected a deficit of $6.7 billion in 2018-19, but the true deficit is 75% higher — $11.7 billion, the Lysyk review says.

The government told Ontarians the deficit for 2019-20 would be $6.6 billion, but again Lysyk finds that number out of whack.

The auditor projects that deficit to be 85% higher at $12.2 billion, and 92% higher in 2020-21 — $12.5 billion rather than $6.5 billion as announced in the budget.

"When expenses are understated, the perception is created that government has more money available than it actually does," the report says. "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."

The auditor said the government has failed to reflect the true financial impact of borrowing to pay for its Fair Hydro Plan, which shaves an average of 25% off electricity customer bills.

The government has also recorded public sector pension plan assets in its books as if the money is available to spend as it wishes, which it is not, the Lysyk review stated.

The effect of those two accounting measures is to create a false impression about the province's level of indebtedness, Lysyk said.

The Wynne government has been in a protracted dispute with the auditor general over this issue.

"We made a decision that we need to reduce electricity bills by 25%," Wynne said Wednesday. "We worked closely with professional accountants who helped us to design the plan. We have kept that debt in the electricity system and that is the responsible step that we have taken."

Ontario Liberals understated deficit by billions, according to AG. Wynne calls it an 'accounting dispute'

The National Post
Wed., April 25, 2018

Bonnie Lysyk says the 2018-2019 deficit projected by the government was $6.7 billion and will instead be $11.7 billion.

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Reevely: Ontario's government can't keep up a permanent war with its auditor

Ottawa Citizen
David Reevely
APRIL 25, 2018 08:32 AM

The numbers the Ontario Liberals are using in their financial projections ahead of the June election are “not reasonable,” auditor general Bonnie Lysyk reported Wednesday.

They insist that their multibillion-dollar borrowing to temporarily cut consumer power bills comes without costs to the provincial treasury and that surpluses in pension funds they can’t touch belong on the books, she said in her “Review of the 2018 Pre-Election Report on Ontario’s Finances” — and that leads to dishonest books.

These complaints of Lysyk’s aren’t new in themselves, but they’re not going away. They’re permanent deficiencies in how we keep track of how much money Ontario has and they’re getting worse. This year’s $6.7-billion deficit is actually an $11.7-billion deficit, Lysyk reports, and we’re bound for deficits of $12.5 billion and $12.7 billion in the years to come.

“When expenses are understated, the perception is created that government has more money available than it actually does,” Lysyk says. “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.”

Lysyk filed this report because of a reform the Liberals brought in after they won power in 2003 and pulled one of her predecessors out of retirement to go over the books left by the Ernie Eves’ Progressive Conservatives. Turned out that instead of the $3-billion deficit the Tories said they had, Ontario was spending $5.6 billion more than it was taking in that year.

Never again, the Liberals declared. We’re going to pass a law, the Fiscal Transparency and Accountability Act, and any future government that messes around the way the Tories did will have an auditor-general’s report to answer to. And hello, here it is.

First the good part: The unexpected can always happen but Lysyk finds the government’s economic forecast reasonable, its revenue expectations appropriate and its list of expected spending generally proper. Big-ticket items like child care and pharmacare come with plausible costings.

But now about the Fair Hydro Plan and the pensions.

Temporarily cutting Ontarians’ electricity bills by 25 per cent means borrowing a bunch of money and paying it off over many years. This year’s share is $2.4 billion, Lysyk says. The Liberals have found a way to keep that debt off the government’s books by making Ontario Power Generation do the borrowing, but in the end we’re all still on the hook.

The pension business is arcane — it involves separate funds for Ontario's teachers and the Ontario Public Servants Employees Union, and the details are different for each of them — but the Liberals are counting them partly as government property even though the government can't touch the money that's in them.

With hydro, there's money we owe that the government says we don't have to count. With the pensions, there's money that's not really ours but the government says it is.

"At worst, this could help enable a 'structural deficit,' where program expenditures are exceeding revenues on an ongoing basis, requiring governments to continuously borrow in order to deliver basic programs," Lysyk's report says.

In both cases, the Liberals have credentialed accountants on their side saying they can, in fact, do what they're doing.

"The government's opinions on these two matters are well supported by internal and external experts, and have always informed the government's ongoing reporting on its fiscal status," Finance Minister Charles Sousa and Treasury Board President Eleanor McMahon said in a joint statement. "Given these disagreements on accounting questions, there is also a difference of opinion on deficit numbers between the auditor general and the government."

Accountants, amirite? What are you gonna do?

Listening to your auditor general is what you ought to do. Being the final authority on the government's books is her first function.

The Liberals made this mess but it's a problem for all of the parties now. The opposition parties are happy to rail against the Liberals for their dishonesty, yet the New Democrats have adopted the Liberals' handling of the numbers as their own: nowhere in their detailed platform book do they raise taxes or cut spending to get back on the track Lysyk lays out.

The Tories are dispensing with a costed platform, so who knows what they'll do.

At some point, Ontario has to get out of this, though, and the list of options is pretty short. The government, whatever party controls it, can bite the $5-billion bullet with tax hikes or spending cuts. It can get rid of Lysyk (she has five years left in her 10-year term and as an officer of the legislature, she's not easily fired) and replace her with someone who will do the books the politician-friendly way.

It's got to be one of these. Ontario can't have every budget from now until forever come with a big asterisk on the cover.

Auditor General pre-election report says government figures 'not reasonable'
Bay Today

'When expenses are understated, the perception is created that government has more money available than it actually does'

This morning, the Auditor General released a pre-election report on the government's budget numbers and it's not kind to Liberal election hopes.

The report found that Ontario's deficit is actually $11.7 billion, 75 per cent larger than the Liberals said.

"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 her report this morning.

The Fiscal Transparency and Accountability Act, 2004 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.

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).

"This is just the latest example of why Kathleen Wynne is untrustworthy," said Nipissing MPP and Ontario PC Finance Critic, Vic Fedeli.

"The Wynne Liberals will do, say, or promise anything to cling to power – this includes using shady accounting practices to bury the true state of Ontario's books. The Wynne Liberals' deliberately misleading shell game is proof that the people of Ontario can't trust this government."

PC Leader Doug Ford has committed to a full audit of the government's books to restore responsibility, accountability, and trust in government says a PC news release.

"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 explained.