Remarks by Bonnie Lysyk, Auditor General of Ontario,
on tabling of the Special Report on
the Fair Hydro Plan
October 17, 2017

<u>Check Against Delivery</u>

Good morning everyone. I'm Bonnie Lysyk, the Auditor General of Ontario.

I want to thank you for this opportunity to discuss our Special Report on the Fair Hydro Plan.

By way of background, I am an independent, non-partisan Officer of the Legislative Assembly. The *Auditor General Act* requires me to speak out when financial information of the government is not, or will not be, presented fairly to the Legislature or to Ontarians.

This is such a case. The government's accounting treatment for the Fair Hydro Plan creates concerns of transparency, accountability and value for money.

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Let me be clear—I am not speaking about the decision to provide ratepayers with temporary relief from high electricity bills.

That's a policy decision, well within the government's authority, and not something on which the Auditor General comments.

What I AM speaking about is the WAY the government has set up the accounting to implement this decision.

There's still time to fix it, and we're encouraging the government to do so. That's why we're coming out with a Special Report. It recommends the government record the true financial impact of its electricity rate reduction plan in the province's budgets and consolidated financial statements, and use the least costly financing structure to fund the rate reduction.

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Allow me to cut to the chase. The government's structure will hide from Ontarians the real financial impacts of its electricity rate reduction.

In order to do this, the government is proposing to use accounting that does not follow its own policy for preparing financial statements. The province has had a policy of applying Canadian Public Sector Accounting Standards.

I want to stress that this is not, as some may suggest, a difference of opinion between accountants on some obscure rule of bookkeeping.

This is far more serious.

Under the leadership of the Public Sector Accounting Standards Board, Canadian Public Sector Accounting Standards were developed over decades to ensure that government finances are reported transparently, and in a way that allows them to be properly compared to each other and to previous years.

The province has brushed aside these standards, which are used by all the federal and provincial governments of Canada. And these standards are the law for municipal governments.

The Ontario government has chosen to replace these standards, going so far as to create an asset in new legislation to avoid reporting the true cost of its policy decision on its financial statements.

This is a significant issue.

We sought extensive advice from the Auditors General across Canada, a former Saskatchewan and British Columbia Auditor General, and many external advisers, including the recently retired Director of the Canadian Public Sector Accounting Standards Board, Mr. Tim Beauchamp, who is here today.

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The accounting proposed by the government is wrong.

That's a really strong statement. So let me explain why we're saying it.

Ontario power producers are guaranteed a certain price for their electricity. If ratepayers get a discount on their hydro bills, someone else will have to pay the difference. Someone has to pay the piper ... right now.

That "someone" is the province. So it can either raise revenue (for example, by increasing taxes or fees), or borrow to cover the shortfall. The government has chosen to borrow.

When a government borrows to cover a shortfall between revenues and costs, what does it mean to you? It means the government has not raised enough revenue to cover its costs and has incurred a loss.

In other words, it's spending more than it has coming in. And under the government's proposed accounting, you will not see that annual loss on any financial statements in Ontario.

The government's proposal is to treat that loss as an asset. That's like you treating your credit card debt as an asset in your own books. Does that sound right to you?

In proper accounting, borrowing money and losses should result in net debt increasing and higher deficits. This is Government Accounting 101.

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Instead, the government has created an elaborate ... non-transparent ... and complicated financing structure. This structure is to be used to avoid recording the true cost of its policy decision, and avoid recording losses and an increase in net debt.

This decision was made knowing that it could cost Ontarians significantly more in interest costs than if the government had borrowed money directly. Instead, most of the money is to be borrowed through entities it owns at higher interest rates

In May 2017, the Financial Accountability Officer reported that this structure could cost ratepayers about 4 billion dollars in additional interest, for a total of 21 billion dollars in interest expense.

Internal records show that senior government officials were aware this approach to borrowing could result in Ontarians paying significantly more interest.

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So the question is, "Why?" Why plan to pay more than you have to? Simply put, it's about achieving a desired accounting result.

That desired accounting result is to:

(1) keep the cost of the policy decision out of the annual surplus and deficit; and

(2) keep the impact of borrowing from showing up in the net debt.

In other words, to obscure the financial impact of the rate cuts on both the province's budgets and financial statements, the government plans to pay more than it has to.

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There are other things that our Office found concerning.

In analyzing how the government came up with this approach, we looked at thousands of internal government emails.

They showed us how the government enlisted senior officials and spent at least 2 million dollars hiring outside advisers to design this complex accounting and financing structure.

The emails we examined made clear that the instruction to those officials by government was that there should be no impact on the fiscal plan from its policy decision.

In other words, they had to come up with something that would not derail the government's promise to present balanced budgets for 2017/18 and the next few years.

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As I wrap up, let me say this: The public expects sound fiscal transparency, accountability and value for money from its government. We encourage the government to implement the two recommendations from our report:

(1) record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the province's budgets and consolidated financial statements; and

(2) use a financing structure to fund the rate reduction that is least costly for Ontarians.

There's still time to do the right thing.

Now, I'd be pleased to take your questions.

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