Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Remarks by Auditor General Bonnie Lysyk to The Standing Committee on Justice Policy on Bill 132 *Ontario Fair Hydro Plan Act, 2017*

May 24, 2017

Good morning. I'm Bonnie Lysyk and I'm the Auditor General of Ontario. Thank you for letting me comment on Bill 132.

It is not the job of the Auditor General to comment on government policy. The government's decision to borrow money to lower hydro bills by 25% is a policy decision, and so I have no comment on it.

However, when it comes to the accounting for such a decision, it is my responsibility to make sure that it is properly recorded in the consolidated financial statements of the Province and is transparently reported to the people of Ontario. And this is why I am here today.

The accounting transaction is structured in a complex manner. In simple terms, the government plans to record as an asset the expected recovery of the 25% in electricity costs from future ratepayers that it will borrow for and pay to power producers today. In essence, it is setting up as an asset an accounts receivable that it expects to collect from future ratepayers between 2022 and 2047 that is not yet an accounts receivable because the consumer has not yet used the electricity.

A similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s. At that time, the government did not want the net impact of the stranded debt, which had already been incurred, to be reflected on the Province's financial statements. Because it anticipated that ratepayers would pay down this debt, it wanted to create an asset to reflect those future anticipated revenues from electricity ratepayers. This approach would have fully offset the total stranded debt, such that there would have been no net debt impact reflected on the Province's consolidated financial statements. The Auditor General's opinion, as stated in our Office's 2000 Annual Report, was that this [quote] "would have set an unacceptable precedent for government accounting. It would also have represented a departure from one of the central tenets of generally accepted accounting principles—that revenue not be recognized until it is earned." [end quote] The government heard these concerns and was prudent in making the decision to not create an asset for future anticipated ratepayer payments. I believe those concerns are equally applicable today.

The government of today plans to borrow about $26 billion to cover the 25% shortfall from ratepayers, but it does not want to reflect the overall impact of these borrowings on the consolidated financial statements of the Province, which includes the electricity sector. It plans to record anticipated revenue as an asset to offset borrowings in its consolidated financial statements. As a result, there will be no impact on net debt on the Province's balance sheet. As well, this legislation is designed so that there will be no impact on the Province's calculation of the annual surplus or deficit. Today, like in 2000, we believe this sets a dangerous precedent.

Let me give you an example. Snow plowing in Ontario is performed by private-sector contractors who own equipment. The contractors' bills are properly included as a government expense each year. Now, say the government decides that taxpayers are paying too much for snow plowing and points out that there is value in the snow plowing equipment beyond the term of the contracts. It could argue that it expects to negotiate significantly lower rates in future contracts and wants to defer some current snow plowing costs into the future to "smooth" these costs over time. For obvious reasons, this is not allowed under Canadian public-sector accounting standards. As we know, accounting deals with past transactions, not future ones. So to anticipate that private-sector electricity generators will reduce their costs in the future and to use legislation to make this potential future benefit an asset is also not allowed under Canadian public-sector accounting standards.

So what's the bottom line? I would not be doing my job as Auditor General if I said that creating assets through legislation is acceptable. Under this Bill, the government's policy decision to borrow money to subsidize electricity bills will not affect the Province's net debt or annual deficit. This legislated accounting is not in accordance with Canadian public-sector accounting standards. These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are debt; unearned revenue is not an asset today; and when your expenses exceed your revenues, you incur a deficit. Such common sense and the principle of substance over form should prevail in the financial reporting of government policy decisions.

I now welcome any questions you might have.

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