News Release

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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."

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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.

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For more information, please contact:
Bonnie Lysyk
Auditor General
(416) 327-1326

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