Chapter 1

Section 1.10

Ministry of Finance

Ontario Financing Authority

Follow-Up on VFM Section 3.10, *2019 Annual Report*

RECOMMENDATION STATUS OVERVIEW

		Status of Actions Recommended				
	# of Actions Recommended	Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	4		3		1	
Recommendation 2	2			2		
Recommendation 3	1				1	
Recommendation 4	2	1			1	
Recommendation 5	1			1		
Recommendation 6	2	1	1			
Recommendation 7	2		2			
Recommendation 8	2					2
Recommendation 9	1			1		
Recommendation 10	3		3			
Total	**20**	**2**	**9**	**4**	**3**	**2**
%	**100**	**10**	**45**	**20**	**15**	**10**

Overall Conclusion

The Ministry of Finance (Ministry) and the Ontario Financing Authority (OFA), as of October 22, 2021, have fully implemented 10% of the actions we recommended in our *2019 Annual Report*. The Ministry and the OFA have made progress in implementing an additional 45% of the recommendations.

The Ministry has fully implemented recommendations to request the OFA to remit its surplus administrative fees back to the Ministry and the OFA began assessing all foreign debt issuances as an alternative to domestic debt issuances prior to executing them.

The Ministry is in the process of implementing recommendations such as developing evidence-based, long-term targets for debt sustainability and monitoring these targets against the province's financing needs and payment obligations.

The Ministry has made little progress on 20% of our recommendations, including developing and testing scenarios that consider the impacts of economic shocks (for example, the 2008 financial crisis) and using this information to advise the government on response strategies to these economic shocks.

Unfortunately, the Ministry and the OFA said that they would not be implementing three or 15% of the recommendations. The recommendations that the Ministry and the OFA will not be implementing are:

- clearly defining what constitutes "extraordinary circumstances" that enable the government to plan to run deficits;
- requiring public bodies to reduce the province's cost of debt by borrowing through the OFA where provincial interest savings could be achieved; and
- discontinuing the practice of the OFA charging public bodies administrative fees for borrowing through the OFA that increases their cost of borrowing, despite these costs being fully funded by the Ministry.

We continue to encourage the Ministry and the OFA to implement these recommendations.

An additional two or 10% of our recommendations are no longer applicable because of changes to proposed accounting standards that addressed the underlying issues associated with our recommendations.

The status of actions taken on each of our recommendations is described in this report.

Background

In 1993, following the 1990 recession, the provincial government created the Ontario Financing Authority (OFA) to manage the province's debt, borrowing and investing as a separate board-governed agency. The OFA operates under a Memorandum of Understanding with direct reporting to the Ministry of Finance (Ministry). Its responsibilities also include managing the province's liquid reserves, which represent borrowed funds held as cash and short-term investments. As well, the OFA provides financial advice to the government and manages the operations of the Ontario Electricity Financial Corporation. In addition, public-sector bodies, such as hospitals, universities and agencies, can do their borrowing through the OFA.

Between 1993/94 and 2020/21, the average annual increase in net debt—the difference between the province's total financial liabilities and assets—was $10.8 billion. By 2020/21, net debt had risen to $374 billion ($338 billion in 2018/19) from $81 billion in 1993/94. Between 1993/94 and 2020/21, the average annual increase in debt—the outstanding borrowings of the province—was $12.0 billion. By 2020/21, debt had risen to $405 billion ($354 billion in 2018/19) from $81 billion in 1993/94.

Our audit in 2019 confirmed that the OFA was effective in its investing operations and assessing short-term risks. However, the OFA had not sufficiently analyzed long-term debt sustainability—that is, the province's future ability to repay debt. The Ministry, in turn, had not established long-term targets in conjunction with the government to inform debt and expenditure decision-making by using an analysis of debt sustainability that considered the impact of and recovery steps needed to respond to potential future economic shock.

The lack of long-term debt sustainability planning could prolong the impacts from a future economic shock, such as what we are seeing now from COVID-19.

We found that the OFA continued to incur significant costs in its debt management activities without formally assessing whether the province obtained value from these expenditures. The OFA needed to assess the potential for future significant savings to the province, in the areas highlighted below:

- As of March 31, 2019, public government bodies had borrowed $7.7 billion, between 1996/97 and 2018/19, outside the OFA, resulting in $258 million in additional interest costs to the province because the public bodies borrowed directly from financial institutions or through issuing their own bonds, rather than through the OFA, which can issue debt at lower interest rates. The public bodies acquired this debt at a higher cost, primarily because either they did not know they could borrow through the OFA, or the OFA would not provide their desired repayment terms.
- The OFA spent $508.9 million on commissions to groups of banks, called syndicates,

between 2014/15 and 2018/19 to issue its domestic debt. The OFA had not formally assessed whether it should expand its use of debt auctions, which alternatively, do not carry any significant costs to the province and are commonly used by public borrowers of similar size.

- The OFA issued debt in foreign markets between 2014/15 and 2018/19 that cost the province $47.2 million more in interest costs than if the debt had been issued in Canada. We found no evidence that the OFA assessed whether these increased costs were needed for the province to manage the risk associated with issuing debt primarily in Canada.
- Holding excess liquid reserves cost the province up to $761 million in additional interest payments between 2014/15 and 2018/19 because the province earned less interest on the reserves than it paid on funds borrowed to maintain the reserves. The OFA never had to use the liquid reserves, which were $32.6 billion on average in fiscal 2018/19, because it had always been able to borrow to meet short-term needs even during the 2008 financial crisis. While maintaining sufficient liquid reserves is important for reducing the province's risk of not meeting its short-term needs, the OFA had not conducted a cost/benefit analysis to determine the optimal amount of liquid reserve to hold so that these needs could be met without unnecessary excess costs being incurred.
- Between 2007/08 and 2018/19, the OFA charged its administrative costs to public government bodies that had borrowed through it, yet its administrative costs were ultimately funded by the Ministry of Finance. As of October 2019, a $32.2-million surplus was being held in a bank account that had not been invested to earn interest at a higher rate or was not used to reduce the province's debt.

OFA may decide to incur $54 million of additional annual interest costs if it changes its debt refinancing practices in order to avoid having volatility in the province's consolidated financial statement resulting from the use of a new required accounting standard. An anticipated change in a key accounting standard in 2021/22 would have resulted in fluctuations (subsequently delayed to 2022/23 as a result of COVID-19) appearing in the annual financial statement debt if the OFA's current approach to managing fluctuations appearing in the annual financial statement currencies and the Canadian dollar is used, but not if a more expensive approach is used. The OFA told us it was considering using the more expensive approach to avoid the accounting volatility that would contribute to a difference in the financial statements between the provincial budget and actual results. In 2020, the Public Sector Accounting Board approved amendments to the accounting standards that address the underlying issue raised in our 2019 report.

We made 10 recommendations, consisting of 20 action items, to address our audit findings. We received commitment in 2019 from the Ministry of Finance and the Ontario Financing Authority that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 2021 and October 2021. We obtained written representation from the Ministry of Finance and the Ontario Financing Authority that effective November 2, 2021 they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Ministry Should Formally Assess Sustainability of Province's Debt Burden and Develop Long-Term Plan to Address Debt Burden

Recommendation 1

To increase the ability of the Ministry of Finance (Ministry) to achieve long-term sustainability for the provincial debt, we recommend that the Ministry:

- *clearly define "extraordinary circumstances" as set out in the* Fiscal Sustainability, Transparency and Accountability Act, 2019*;*

  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

In our 2019 audit, we found that under the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (and previously under the *Fiscal Transparency and Accountability Act, 2004*), the government is required to plan for a balanced budget each year unless, as a result of "extraordinary circumstances," the government determines it is necessary for the province to run a deficit. Since this legislation was enacted, the province has planned to run a deficit in most years. In Ontario, unlike other Canadian jurisdictions with balanced-budget legislation, the extraordinary circumstances that enable the government to plan for a deficit have not been clearly defined. For example, in 2018/19 the provincial government identified the extraordinary circumstance as: "The government believes that the best way to deliver prosperity to more people in Ontario is by continuing to invest in the economy, and in public services that promote greater fairness and opportunity across the province." In comparison, Quebec outlines that a deficit may be incurred only for a disaster that has a major impact on revenues or expenditures, a significant deterioration of economic conditions, or a change in federal transfer payment programs.

At the time of our follow-up, the Ministry said that it does not intend to clearly define the "extraordinary circumstances" that permit a deficit to be budgeted. The Ministry reviewed balanced-budget legislation across Canada, but believed none provided a clearer definition of when budget deficits can be planned. The Ministry will continue to include its rationale in the budget for what it believes would be the extraordinary circumstance justifying it to plan for an annual deficit and develop a recovery plan to achieve a balanced budget at some point in the future.

We believe that in order to protect the long-term sustainability of the province's finances, the Ministry should clearly define the "extraordinary circumstances," under which a provincial government in Ontario would be permitted to budget a deficit.

- *identify relevant measures to assess debt sustainability;*

  Status: In the process of being implemented by March 2023.

Details

In our 2019 audit, we found that the Ministry had not assessed what level of provincial debt would be sustainable and whether the province would be able to withstand an economic shock such as a recession. The 2019 budget contained a debt-burden-reduction strategy and announced that the government's objective was to have Ontario's net debt-to-GDP ratio continue to be below 40.8% by 2022/2023. However, we found that there were no measures in place related to debt sustainability in any formal, long-term plan. The province sets its annual budget for projected revenues and expenses, and the Ontario Financing Authority (OFA) creates a plan to acquire enough debt to meet the needs of any annual projected funding shortfall.

In our follow-up audit, we found that the Ministry had identified two new measures of debt sustainability: net debt-to-revenue and interest on debt-to-gross domestic product (GDP). As well, the Ministry planned to identify other potential measures of debt sustainability by March 2023.

- *develop formal, evidence-based long-term targets and plans to meet them; and*
- *monitor these measures and assess the impact on the province's current and projected financing needs, and the cost of debt.*

  Status: In the process of being implemented by the 2022/23 fiscal year.

Details

In our 2019 audit, we found that there were no targets in place related to debt sustainability in any formal, long-term plan.

In our follow-up, the OFA said it has been focused on issuing debt for the province to address the impact of COVID-19. As such, the Ministry and the OFA have not yet set evidence-based debt sustainability targets or developed plans to meet them. The OFA continues to forecast (an assessment of likely future performance based on current information) what net debt-to-GDP will be under the current planned operations—50.5% in 2024/25 and 2025/26—and set a new goal of keeping net debt-to-GDP below 50.5% (the prior goal was keeping it below 40.8% by 2022/2023).

The OFA and the Ministry said that they will work toward addressing the recommendation by the 2023 Budget, and plan to incorporate targets—measures of improvement from current performance—based on analysis of debt sustainability. Once these targets have been developed, the Ministry plans to monitor these measures and assess the impacts.

The Province Lacks Plans to Respond to Impact on Debt and Operations from an Economic Shock

Recommendation 2

So that the Ministry of Finance (Ministry) is better informed about the province's ability to withstand potential new economic shocks and about potential scenarios to consider when faced with new significant economic impacts, we recommend that the Ministry request that the Ontario Financing Authority:

- *develop and test scenarios that consider the impacts of potential economic shocks (for example, the 2008 financial crisis); and*
- *use the information from these tests to advise the Ministry on optimal borrowing levels and on the response strategies, such as fiscal and economic policies, it could apply in the event of economic shocks.*

Status: Little or no progress.

Details

We found in our 2019 audit that the Ministry has not empowered the OFA to proactively advise the government on how to manage the sustainability of the provincial debt burden or respond to economic shocks. During the audit, the OFA told us that it has advised the Ministry that targets and measures for debt sustainability, including the assessment of probable economic shock scenarios that could have a negative impact, are critically important. However, at the time of the audit the OFA did not provide guidance on selecting the economic shock scenarios or perform any assessment of these scenarios.

In our follow-up, we found that the Ministry did not begin addressing this recommendation prior to the economic shock associated with COVID-19. In response to COVID-19, the OFA reached out to the Bank of Canada to form a co-ordinated borrowing response for all provinces. The OFA indicated that it planned to reach out to the Bank of Canada in response to any future economic shocks. Other than this, we found that the OFA's processes have not yet changed. The Ministry considers only different projections of potential recovery and there is no planning for any future economic shocks. Without this planning, the province could be slow to respond to another economic shock (as it was during the 2008 financial crisis), affecting its ability to reduce the impacts and potentially resulting in prolonged impacts to its credit rating.

Hospitals, School Boards and Colleges Acquired Over $2.7 Billion of Debt Outside of OFA, Incurring More than $204 Million in Higher Interest Costs in Five Years

Recommendation 3

To reduce the interest cost incurred on the province's debt, we recommend that the Ministry of Finance reassess public entities' borrowing options to require public bodies to borrow through the Ontario Financing Authority where savings to the province could be achieved.

Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

We found in our 2019 audit that as of March 31, 2019, public government bodies had borrowed $7.7 billion outside the OFA, resulting in $258 million in additional interest costs to the province because the public bodies borrowed directly from financial institutions or through issuing their own bonds, rather than through the OFA, which can issue debt at lower interest rates. The public bodies acquired this debt at a higher cost, primarily because they did not know they could borrow through the OFA, or the OFA would not provide their desired repayment terms.

In our follow-up, we found that the Ministry performed a qualitative versus a quantitative assessment of options for borrowings by public bodies and decided that it will not require public bodies to borrow through the OFA. Potential cost savings were not compared with the administrative costs associated with the OFA providing these loans for either short-term or long-term borrowings. Instead, the OFA will increase its education and outreach to encourage public bodies to borrow through it. Despite the significant savings that could be achieved by requiring public bodes to borrow through the OFA, according to the Ministry, this education and outreach approach will be taken, in part because some public bodies may object to provincial involvement.

Our Office continues to hold the view that in order to obtain significant savings for taxpayers, the Ministry should require public bodies to borrow through the OFA where savings to the province, and therefore taxpayers, could be achieved.

OFA's Surplus from Loan Administration Charges to Public Bodies Not Used to Reduce Debt Costs or Earn Interest

Recommendation 4

To reduce the province's debt, we recommend that:

- *the Ministry of Finance request that the Ontario Financing Authority provide to the province its surplus administrative fees earned to date;*

  Status: Fully implemented.

Details

We found in our 2019 audit that the OFA has been accumulating a surplus by charging government bodies administrative costs for managing loans. Since the Ministry provided funding to cover all of OFA's costs, including the administration of these loans, this administrative charge had resulted in a surplus. The surplus was held in the OFA's bank account and had not been invested to earn interest at a higher rate or used to reduce the province's debt.

In our follow-up, we found that in November 2020, the OFA remitted $30 million of this surplus to the province and plans to remit future surplus funds in excess of $5 million. The Ministry said that the OFA retaining $5 million of the surplus funds is a prudent measure to ensure that a minimal amount of funds is available for emergency requirements. The OFA indicated that in four years it would review its policy of retaining $5 million of the surplus and submitting only the surplus funds above $5 million annually.

- *the Ontario Financing Authority review and revise the administrative fees it charges to keep them at or below its actual administrative costs, so that public bodies do not have to borrow more money just to pay administrative fees to the Ontario Financing Authority.*

  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

We found in our 2019 audit that the OFA charges government bodies that have borrowed through it, administrative costs that are ultimately funded by the Ministry of Finance, to manage the loans.

In our follow-up, we found that the OFA decided to continue charging administrative fees for managing loans to government bodies. The OFA indicated that without charging these additional fees, government bodies would not properly consider the true costs of proposed projects. In 2020/21, the OFA began remitting this surplus to the province annually.

Our Office continues to recommend that the OFA discontinue its practice of charging government bodies administrative fees that are also fully funded by the government. These fees, while increasing the cost to government bodies—and as a result increasing motivation for them to acquire higher-cost debt outside of the OFA—result in an unnecessary bureaucratic administrative process. Government bodies are required to incur more debt to pay these administrative fees to the OFA, whereby the OFA in turn would have excess funds to then transfer the excess fees to the province. As mentioned, government bodies have to request higher provincial funding in order to continue to pay the OFA's fully funded administrative fees. Further, the OFA then annually incurs additional costs to have a private-sector company determine whether its method of calculating the administrative costs is reasonable.

Province Could Save Commission Expenses by Expanding the Use of Debt Auctions

Recommendation 5

To reduce the cost of issuing debt, we recommend that the Ontario Financing Authority perform a formal assessment of its domestic debt-issuing strategy and consider the costs and benefits of increasing the amount of debt it issues through auctions.

Status: Little or no progress.

Details

We found in our 2019 audit that between 2014/15 and 2018/19, the OFA issued $112 billion domestic debt and spent $508.9 million on commissions paid to groups of banks, called syndicates, to issue its domestic debt without formally considering expanding its use of debt auctions, which are less costly, to better align with common practices for large, regular issuers of debt. There are no commission costs and minimal other costs when the OFA issues debt through auctions. Between 2014/15 and 2018/19, the OFA issued debt through auctions four times.

In our follow-up, we found that the OFA researched the potential sources of costs and benefits associated with expanding its debt auctions and determined that the province should target one or two auctions a year and consider issuing debt in terms greater than four years. However, the OFA had not yet quantified the potential costs of expanding its debt auctions nor compared the costs to the known savings in commissions. The OFA plans to complete a comprehensive analysis on expanding its use of auctions subsequent to the current economic circumstances, which it indicated make auctions unviable.

OFA Does Not Formally Assess Cost of and Need for Issuing Debt in Foreign Markets

Recommendation 6

To further minimize the interest costs of debt assuming a reasonable level of risk, we recommend that the Ontario Financing Authority:

- *formally assess the amount and frequency of debt it should issue in foreign markets;*

  Status: In the process of being implemented.

Details

We found in our 2019 audit that the OFA does not formally assess whether the increased cost of issuing debt in foreign markets benefits the province. Between April 1, 2014 and March 31, 2019 debt issued in international markets cost the province an additional $221.8 million. The OFA said its reasons for issuing debt in foreign markets included:

- to mitigate the risk of oversaturating the domestic market, which would result in higher costs; and
- to avoid potential costs of re-entering foreign markets.

In our follow-up, we found that the Ministry and the OFA researched the potential sources of costs and benefits associated with issuing debt in foreign jurisdictions. For example, in its *2020-21* and *2021-22 Financing and Debt Management Plans*, the OFA identified that "the Province tries to minimize its domestic borrowing costs throughout the year and ensure that the supply of new domestic debt is in line with investor demand. Significantly more domestic funding would require higher [interest rates].” However, the higher interest costs associated with increased domestic funding have not yet been compared with the increased interest costs the Ministry incurs when issuing debt in foreign markets.

The OFA did, however, include in both its *2020-21* and *2021-22 Financing and Debt Management Plans*, analysis of the historical interest rate impact on foreign issuances compared to equivalent domestic borrowings. The OFA said it has delayed its full assessment of issuing debt in foreign markets due to the state of the financial markets resulting from the COVID-19 pandemic. The OFA plans to include an assessment of the amount and frequency of debt it should issue in foreign markets.

- *document its assessment of the costs and benefits of issuing debt in foreign markets instead of domestically before issuing debt, and retain this information to support current decisions and inform future ones.*

  Status: Fully implemented.

Details

In May 2020, the OFA began assessing all foreign debt issuances prior to executing them and reporting that information to its internal Risk Management Committee. The assessments included the cost to issue the foreign debt. For example, in May 2020 when contemplating issuing $1.75 billion US bonds, the OFA identified that this would cost roughly 0.06% ($1.05 million per year) above a similar sized issuance in Canada. The OFA indicated that the benefits of issuing these US dollar bonds included spreading out debt maturities. The OFA approved and issued this debt.

OFA Has Not Established Optimal Amount of Costly Liquid Reserve to Hold

Recommendation 7

To reduce the costs of holding more liquid reserve than needed while still staying within a reasonable risk tolerance level, and enable the savings to go to paying debt and interest costs, we recommend that the Ontario Financing Authority:

- *analyze the province’s cash-flow requirements and establish an optimal liquid reserve target, considering the costs and benefits (such as the risk of being unable to meet immediate cash needs and the risk of impacting the province’s credit rating) of holding different levels of its liquid reserve;*

  Status: In the process of being implemented by June 2022.

Details

We found in our 2019 audit that the OFA had never performed a cost/benefit analysis to determine the optimal level of liquid reserve needed to meet the short-term cash requirements of the province without excess costs. At the time of the audit, the OFA set the minimum amount of liquid reserve at one month’s worth of cash requirements. Our audit found that holding a liquid reserve above this level had cost the province up to $761 million in additional interest between 2014/15 and 2018/19 because the province earns less interest on the reserves than it pays on funds borrowed to maintain the reserves.

In our follow-up, we found that the OFA had not yet set an optimal liquid reserve target to compare liquid reserve levels with throughout the year. In its *2020-21 Financing and Debt Management Plan*, the OFA targeted a year-end liquid reserve level. The OFA determined that at year-end it would target maintaining liquid reserve levels equal to the next three-month’s cash requirements (April through June of the next year). The OFA plans to develop ranges of liquid reserves to maintain throughout the year by June 2022.

- *regularly monitor and report on the amount of the reserve and the costs and benefits of effectively managing it.*

  Status: In the process of being implemented after June 2022.

Details

In May 2021, the OFA began discussing the costs of liquid reserves on a monthly basis at its Risk Management Meetings and posting its annual average liquid reserves on its website. Once target ranges are developed by June 2022 (as outlined above), the OFA will begin monitoring and reporting on its performance against these.

OFA Plans to Spend $54 Million More a Year for Financial Statement Debt to Avoid Potential Budget to Actual Accounting Variances in the Province's Consolidated Financial Statements

Recommendation 8

To better maximize value for money in the business practices of the Ontario Financing Authority (OFA), and to follow the new accounting standard should it be effective as currently proposed in 2021, we recommend that the OFA:

- *incorporate the impact of the potential volatility arising from implementing the change in accounting standards in its debt planning; and*
- *use the most cost-effective methods to manage the risk of fluctuations in exchange and interest rates.*

  Status: No longer applicable.

Details

We found in our 2019 audit that changes in accounting standards that were expected to take effect in 2021 could have resulted in the OFA choosing to incur higher-than-necessary costs for its foreign currency transactions. The OFA would incur these costs in order to make the province's interest on debt and net debt numbers align more closely with the numbers projected in the provincial budget. It estimated to do so would cost the taxpayers an extra $54 million per year.

In 2020, the Public Sector Accounting Board approved amendments to the accounting standards for foreign currency translation and financial instruments. These amendments address the underlying issue raised in our 2019 report—that the OFA would no longer use forward contracts due to the previous standards not allowing hedge accounting for this type of contract. The narrow-scope amendments will come into effect April 1, 2022. They will allow hedge accounting and the OFA will continue to use both currency swaps and forward contracts as cost-effective methods to manage the risks of fluctuations in exchange and interest rates.

No Operational Reviews of OFA's Organizational Structure and Staffing Levels

Recommendation 9

To enable operational efficiencies at the Ontario Financing Authority (OFA) that will improve value for money, we recommend that the Ministry of Finance, in conjunction with the OFA, evaluate and determine the optimal organizational structure and staffing size to cost-effectively achieve the province's debt management objectives.

Status: Little or no progress on comparing staffing size and compensation with debt managers in other Canadian jurisdictions.

Details

We found in our 2019 audit that the OFA has an operating structure that is unique in Canada, being the only provincial debt management agency, and that the Ministry had never reviewed OFA's operations to determine whether its staffing level and mix were optimal to achieve its mandate in a cost-effective manner. Specifically, it had more than twice the number of debt managers of any other province and the federal government. Further, 23 of the OFA's debt management staff receive performance pay, which is not done in other provinces or the federal government, and are being paid significantly more than their comparable counterparts.

In our follow-up, we found that in March 2021, staff from the Ministry completed an organizational review of the OFA. The Ministry determined that it would be challenging to compare the OFA's compensation to other provinces and therefore this was not done as part of this review. Recommendations from this review included that the OFA:

- split the Chief Finance and Risk Officer function into two roles, Chief Finance Officer and Chief Operating Officer;
- receive the same level of information technology and human resources supports that other agencies and ministries receive;
- review its legal branch and other legal support to reduce duplication and gaps; and
- establish a staffing approval process that includes an estimated return-on-investment for incremental staff.

The Ministry indicated that it was waiting for government decisions concerning future broader public sector executive compensation prior to reviewing the compensation of OFA's debt managers.

OFA Lacks Measures to Adequately Report on Performance

Recommendation 10

To effectively measure and report on all significant activities within its mandate, we recommend that the Ontario Financing Authority:

- *identify objective outcome measures of performance for all its activities;*
- *set reasonable targets and regularly reassess the relevance and effectiveness of these targets, updating them as needed;*
- *publicly report on its targets and the results achieved.*

Status: In the process of being implemented by the end of the 2022/23 fiscal year.

Details

We found in our 2019 audit that the OFA lacked objective performance measures. Of the OFA's 33 performance measures, 25 were reporting and operating requirements, such as calculating interest on debt monthly, and meeting with credit rating agencies. Of the remaining eight, half lacked evaluation criteria. As well, the OFA did not publicly report on many of its measures and where it did report, in most cases it did not disclose its performance against its targets.

In our follow-up, we found that the OFA, in its 2020-2023 Business Plan, had developed four new performance measures. These related to enhancing cybersecurity, maintaining information technology systems, modernizing work arrangements and cross-training OFA staff. Objective measures were developed for one of these and under development for another one. Two needed to be reassessed due to the impacts of the COVID-19 pandemic.

The OFA has committed to assessing and updating its other performance measures to be outcome-based by fiscal 2022/23. The OFA also plans to implement reasonable targets for these measures and publicly report on the results achieved. The OFA said that the progress on expanding its identification and assessment of outcome-based performance measures has been delayed due to the province's need for additional debt as a result of the COVID-19 pandemic.