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

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2019 Value-for-Money Audit

Why We Did This Audit

- The Ontario Financing Authority (OFA) was created in 1993 to manage the province's debt, borrowing and investing.
- By 2018/19, net debt (the difference between the province's total financial liabilities and assets) had risen to $338 billion from $81 billion in 1993/94, an average increase of $10.3 billion a year.
- Our Office has not previously audited the OFA.

Why It Matters

- Effective debt and cash management and borrowing is important to avoid unnecessary costs to taxpayers.
- Debt as of March 31, 2019, totalled $354.3 billion. Interest on debt was $12.4 billion in 2018/19, making it the fourth largest expenditure after health care, education, and children and social services. Should interest rates increase, more funding will be needed to make interest payments, which could reduce funding available to spend on programs.

What We Found

- The OFA was effective in its investing operations and assessing short-term risk, but has not sufficiently analyzed long-term debt sustainability; that is, the province's future ability to repay debt. The Ministry of Finance (Ministry), in turn, has not established long-term targets in conjunction with government to inform debt and expenditure decision-making that considers the impact of and recovery steps that would be needed to respond to potential economic shocks, such as the 2008 fiscal crisis.
- When assessing the OFA's practices and decisions between 2014/15 and 2018/19, our audit identified significant costs that lacked a formal assessment to support that the province obtained value for having incurred them. This included about:
  - $761 million in interest costs for holding a liquid reserve in excess of the OFA's one month minimum level without assessing what is the optimal amount of liquid reserve to hold;
  - $509 million in commissions to syndicates (groups of banks) without assessing whether it could have paid less by expanding its use of auctions, which do not carry any significant costs and are commonly used by public borrowers of its size; and
  - $47 million in additional costs to issue foreign debt without assessing the extent to which these costs were needed to manage the risk associated with issuing debt in Canada.

These are areas where there is potential for significant interest and other cost savings going forward.

- As of March 31, 2019, public government bodies had directly borrowed $7.7 billion. This resulted in $258 million in additional interest costs because the public bodies did not borrow through the OFA, which can get lower interest rates. The public bodies borrowed 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.
- The OFA is considering spending an extra $54 million a year once a new accounting standard takes effect in 2021/22 so that financial statement debt better matches projections in the government's budget. In 2008/09, in anticipation of this accounting change, the OFA discontinued a cost saving debt issuance practice that had saved the province $194 million between 1998/99 and 2008/09.
- The OFA has a $32.2-million surplus that is kept in a bank account and has not been invested or used to reduce the province's debt. The surplus results from administrative costs charged to public bodies that borrow through it.

Conclusions

- The OFA was effective in its investing operations, assessing short-term risks and complying with legislation and regulations. However, the OFA did not formally assess its practices and decisions to determine whether the province obtained the best value for its borrowing and debt management operations. Opportunities exist for future cost savings. The OFA is not formally reporting to the Ministry of Finance on long-term debt sustainability or analyzing options for the recovery from potential economic shocks. The OFA could increase transparency by identifying and publicly reporting on objective outcome-based performance measures.

Read the audit report at www.auditor.on.ca