Province Could Save Millions: Auditor General

(TORONTO) The Ontario Financing Authority (OFA) was effective in its investing operations and assessing short-term risks; however, it has the opportunity to save millions for the province, Auditor General Bonnie Lysyk says in her 2019 Annual Report, released today.

“We found that the OFA can obtain significant cost savings for the province by assessing how much to hold in liquid reserves (cash and short-term debt); issuing more debt through auctions; and having public government bodies, such as hospitals and universities, borrow through it to lower interest costs,” Lysyk said after her Report was tabled in the Legislative Assembly.

As well, the Report noted that the province is not as prepared as it should be in the event of a financial shock such as occurred in 2008. The lack of planning on how to sustain debt for the long term could contribute to and prolong the effects of a future economic shock.

The Report also noted that the Ministry of Finance has not established long-term targets that would help to inform decisions about the appropriate amount of debt and spending. Without that preparation, the province is not sufficiently prepared to respond to a potential economic downturn with planned steps that may be needed during a recovery.

The Ministry set up the OFA 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, which was an average increase of $10.3 billion a year.

The Report’s findings include:

• As of March 31, 2019, public government bodies had borrowed $7.7 billion directly, rather than through the OFA, which can get lower interest rates. This resulted in the province paying $258 million in additional interest costs. The public bodies borrowed at a higher rate primarily because they did not know they could borrow through the OFA or the OFA could not provide the desired loan terms.

• The OFA incurred significant costs between 2014/15 and 2018/19 without formally assessing whether the province was getting the best value for them. These included:
  • $761 million in interest costs for holding a liquid reserve above the OFA’s minimum without assessing what would be the optimal amount of liquid reserve to hold;
  • $509 million in commissions to syndicates (groups of banks) to sell its debt instruments, such as bonds, within Canada without evaluating whether it could have paid less by using auctions more often (auctions 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 of issuing debt in Canada.
• 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 OFA is considering spending an additional $54 million a year when a new accounting standard takes effect in 2020/21, just so the debt in the province’s financial statements better matches the province’s budget projections.

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Read the report at www.auditor.on.ca
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