Ministry of Finance

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Ontario

May 29, 2020

Christopher Tyrell
Clerk of the Committee
Room 1405, Whitney Block
Queen's Park
Toronto, ON M7A 1A2

Dear Mr. Tyrell,

As requested in your letter dated April 28, 2020, please find enclosed the summary status table in response to the recommendations of the Auditor General of Ontario made in Section 3.10 (Ontario Financing Authority) of the 2019 Annual Report of the Office of the Auditor General of Ontario.

I trust that the materials enclosed meet the requirements of the Committee.

Yours sincerely,

Greg Orencsak
Deputy Minister

Attachment: Summary Status Table

c. Catherine Fife, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Ontario Financing Authority
Section 3.10, 2019 Annual Report of the Auditor General

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
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*; • identify relevant measures to assess debt sustainability; • 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.		The Ministry of Finance is reviewing relevant measures to assess the Province's debt sustainability, and defining the extraordinary circumstances that pose a risk to the province's fiscal outlook, with a view to including these measures and assessments in future 2020 government publications. One such publication is the multi-year budget that the government has committed to release by November 15. The budget will adhere to the requirements of the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA) and further respond to the OAGO's recommendations by: • Outlining the government's recovery plan, including the extraordinary circumstance that has led to the government's deficit; and • Providing an update on the province's debt burden reduction strategy.
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.	The COVID-19 outbreak has introduced significant uncertainty to global economic conditions, and presents an opportunity for the Province to test an economic shock scenario in real time. Throughout this period of uncertainty and financial market volatility resulting from the COVID-19 outbreak, the Province has continued to have the ability to borrow, a sign of Ontario's ongoing financial stability and debt sustainability in the view of investors in Canada and globally.	The upcoming *2020 Long-Term Report on the Economy* (LTR) – required to be released by June 8, 2020 under the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA) – will respond to recommendations by developing and testing long-term demographic and economic scenarios for the Province. This will include testing current trends as an economic shock scenario and considering the potential impacts.

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
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.	MOF and the OFA have reached out to the Ministry of Health and the Ministry of Long-Term Care as well as individual hospitals to raise awareness of the potential cost advantages of borrowing through the OFA, and have had discussions with several hospitals that have been looking at long-term financing options for capital projects.	The Ministry of Finance is reviewing options with the OFA to support it in expanding its loan program in order to reduce the Province's interest on debt cost.
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; and • 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.	The OFA will continue to review and revise its loan administration fees on an annual basis to ensure that the fees accurately reflect the actual cost incurred in administering its loans. The results of this year's review will be presented to the OFA Board in June 2020. In addition, the methodology used to calculate these fees continues to be reviewed regularly by the OFA's internal auditors.	The OFA will work with its Board and the Ministry of Finance to develop a policy by the end of fiscal 2020-21 as to how the cash equivalent of its accumulated surplus should be managed.
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.	In January 2020, following the recommendation of the Auditor General, the Province borrowed $1.0 billion through long-term auctions. This was an increase of $250 million versus auctions held in the previous fiscal year.	The 2020 Financing and Debt Management Plan, which will be presented to the OFA Board in the fall of 2020, will include an assessment of the expanded use of auctions within the domestic debt issuance strategy. It will include a cost/benefit analysis of auctions and will incorporate an analysis of the impact of the COVID-19 outbreak on financial markets. For example, new Bank of Canada purchase programs were developed just recently to address liquidity challenges associated with the COVID-19 impact on trading of provincial securities. An evaluation of both the provincial treasury bill and bond purchase programs will be part of the overall assessment of auctions. A more rigorous analysis of auctions is planned for later in the year and will likely be completed after the Financing and Debt Management Plan.

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
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; and • 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.	The OFA has implemented expanded documentation regarding the rationale for each large strategic foreign debt issue. A summary of the rationale for foreign issuance is discussed and provided at the weekly Risk Management Committee (RMC) meeting and can be found in the RMC minutes which are retained for future reference.	The OFA will provide the assumptions used in evaluating the use of foreign funding in the upcoming Financing and Debt Management Plan which is currently planned for the fall of 2020. The costs and benefits of financing in foreign markets will be outlined in the Plan as well as an assessment of the amounts and frequency of such borrowing planned at that time.
To reduce the costs of holding more liquid reserves 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 require-ments 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; and • regularly monitor and report on the amount of the reserve and the costs and benefits of effectively managing it.	Liquid reserve levels continue to be monitored and evaluated daily to ensure sufficient liquidity will be available to meet the Province's immediate cash requirements particularly given the uncertainty surrounding the current COVID-19 situation. The cost of holding liquid reserves will also be reported to the OFA Risk Management Committee on a monthly basis.	The OFA will include a cost/benefit analysis and optimal target for Liquid Reserves in the 2020 Financing and Debt Management Plan, currently planned for the fall of 2020.

Auditor’s Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
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.		The Public Sector Accounting Board is expected to solicit feedback on extending an exemption in the new accounting standard, previously limited to the Federal Government, to all users. Assuming the exemption is approved, the OFA would be able to continue hedging debt issued in foreign currencies using the most cost effective hedging instrument.
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.	In anticipation of a requirement to reduce operational costs, the OFA reduced its staffing levels through the voluntary exit of some staff, whose positions were not refilled, moving the current size of the organization from 172 full-time equivalents to 162.	The organizational review will be undertaken between now and July 2021 and reviewed in the context of Multi-Year Planning activities.
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; and • publicly report on its targets and the results achieved.	The 2020-2023 OFA Business Plan included new objective measures for planned outputs and outcomes. Actual performance against these targets is assessed each quarter and reported to the OFA Board. Furthermore, the organizational objectives, which inform the individual performance plans of all staff including the CEO, were revised to include more quantitative measures of performance. Once approved, the 2019-20 Annual Report will be published on the OFA website and will include results achieved against performance targets.	