FINANCIAL MANAGEMENT STRATEGY

REPORT ON OUTCOMES

FOR THE YEAR ENDED MARCH 31, 2015

STEADY GROWTH
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Manitoba

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Manitoba Finance

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FINANCIAL MANAGEMENT PRIORITIES

The Financial Management Strategy (FMS) for the Province of Manitoba sets out the government's priorities for financial management, one or more measurable outcomes for each priority area and objectives for each measurable outcome for the current year and for the future. For 2014/15, the FMS focused on priority areas identified in the following table:

FINANCIAL MANAGEMENT PRIORITY	MEASURABLE OUTCOMES
Transparency, Accountability and Fiscal Discipline	• Summary Budget Outlook • Maintaining Accountability for Core Government Program Expenditure and Revenue
Stable and Affordable Government	• Credit Ratings • Expenditures as a Percentage of Gross Domestic Product (GDP) • Sustainable Management of Public Resources
Managing Debt	• Debt Management • Net Debt to GDP Ratio
Five-Year Core Infrastructure Plan	• Core Infrastructure Investment

This Report helps to ensure transparency and accountability by providing the public with the opportunity to assess the success of the government's performance based on measurable outcomes from the original strategy.

Discussion related to the financial management priority areas, the measurable outcomes and results within each area are presented with descriptive narrative, historical trends, and current and longer-term objectives.

■ PRIORITY AREA – TRANSPARENCY, ACCOUNTABILITY AND FISCAL DISCIPLINE

Government implemented a number of measures to ensure financial transparency and accountability while maintaining fiscal discipline over the past number of years. The measures include: fully adopting GAAP compliant summary financial statements as of March 31, 2005; implementing summary budgeting and reporting in 2007/08 to present comprehensive information on the total cost of providing programs and services to Manitobans and how the Government Reporting Entity (GRE) operates as a whole; publishing a FMS as part of the annual budget and releasing a report on outcomes within six months of the end of each fiscal year; implementing summary quarterly financial reporting, consistent with GAAP in 2009/10; and extending the employer's share of current service contributions to all employees.

The commitment to transparency, accountability and fiscal discipline continued with an update on the balanced financial strategy for 2014/15 and future years.

Measurable Outcome – Summary Budget Outlook

The Manitoba economy continues to be one of the most stable in Canada. Economic growth in Manitoba was 2.4% in 2014/15, better than the 2.2% forecast in Budget 2014.

Manitoba's balanced approach is designed to deliver services while recognizing that the global economic outlook was not recovering as strongly as predicted. This balanced approach focuses on what matters most – jobs, a stable economy and key services that families count on. Government continued to carefully manage government spending while ensuring Manitobans' priorities come first; continued to invest in vital front-line services to improve health care, education and training and supports for families; continued to deliver services in the most efficient way possible by expanding the use of lean processes in core government departments; and maintained affordability to keep Manitoba one of the best places to live, work, raise a family and retire.

The government is committed to protecting the services Manitobans rely on, and ensuring that delivery methods consider innovative ways to reduce costs and to increase efficiency. Measures implemented in recent years include:

- reducing the number of regional health authorities to streamline administration;
- merging the Manitoba Liquor Control Commission and Manitoba Lotteries Corporation to reduce overhead and regulatory costs;
- reducing the number of government-appointed agencies, boards and commissions;
- establishing Entrepreneurship Manitoba to provide an integrated suite of programs and innovative service improvements for entrepreneurs and businesses; and
- integrating the financial institutions regulation operations in the Manitoba Financial Services Agency to gain efficiency while acting further in the public interest to protect Manitoba investors.

In 2014/15, Manitoba moved forward with further improvements, including:

- expanding the use of lean management across government to maximize value and eliminate duplication and repetitive processes;
- reducing the size of the civil service, meeting the commitment of an overall reduction of 600;
- completing a comprehensive review of office space that led to the reduction of the footprint of government by 140,000 square feet, exceeding the commitment by 40%;
- addressing the past pension liability of the Manitoba Liquor and Lotteries Corporation; and
- continuing to improve service delivery by focusing on operational issues – the way in which implementation or execution is being managed to improve the effectiveness of government's ability to deliver results.

Balanced budget legislation requires that at least $600 million of the balance in the fiscal stabilization account must be applied to the amortization of increases in the general purpose debt including related interest expense attributed to negative net results in core government during the period of economic recovery. To meet this legislated requirement, a draw of $55 million was made in 2014/15 for the payment of debt in recognition of lower than projected interest rates.

Measurable Outcome – Maintaining Accountability for Core Government Program Expenditure and Revenue

Legislation requires government to include a summary of core government expenditure and projected revenue as part of the FMS. This is consistent with the main estimates of expenditure and revenue for the fiscal year.

To ensure transparency and accountability, the government continues to report on the results for core government expenditures and revenues for that fiscal year.

Core government revenue was $11,876 million in 2014/15, $69 million less than budget. Core government expenditures in 2014/15 were $12,511 million, $172 million higher than budget, primarily as a result of costs associated with the 2014 June Heavy Rains event ($131 million), pressures in supports for health services and families ($57 million), recognition of the Province's share of the International Polar Bear Conservation Centre at Assiniboine Park ($30 million) and employment support ($11 million). These expenditures were partially offset by savings in other areas.

Further details on core government are included in Volume 3 of Public Accounts and information on key performance measures may be found in the annual reports for each department.

PRIORITY AREA – STABLE AND AFFORDABLE GOVERNMENT

Manitoba uses public revenues effectively and efficiently to deliver affordable government programs and services. Keeping programs affordable is achieved by improving the way government operates and delivers services.

As part of the balanced financial strategy, government continues to carefully manage programs and services to protect the priorities of Manitobans.

Measurable Outcome – Credit Ratings

Manitoba's credit ratings remain strong in comparison with other Canadian provinces. These ratings are fourth best in Canada. The government's balanced approach to paying down debt and the pension liability, while maintaining core services in health care and other program areas has been positively acknowledged by credit rating agencies through the consistency of the ratings received by Manitoba over the last seven years, including the period of the Great Recession.

Despite lingering uncertainty in external economies, Manitoba's economy is still one of the most stable among provinces in terms of long-term annual fluctuations in economic growth. Manitoba's stability, industrial diversity and commitment to responsible financial management contributed to the stable credit ratings in 2014. Manitoba's balanced multi-year approach continues to include draws from the fiscal stabilization account to repay debt.

In 2014/15 Moody's changed the rating outlook for Manitoba. While the rating outlook does not affect the rating itself, the Manitoba government remains committed to maintaining fiscal responsibility to achieve stable or improving credit ratings into the future.

Credit Rating Agency	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
DBRS	A	A	A	A	A	A	A
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AA	AA	AA	AA	AA	AA	AA

NOTE: As at March 31 (end of fiscal year)

Measurable Outcome – Expenditures as a Percentage of Gross Domestic Product (GDP)

Maintaining stable and affordable government means managing the growth in spending to meet increasing demands for quality services. An effective measure of appropriate spending is the ratio of total expenditures as a percentage of

GDP. This ratio has remained relatively stable over the last five years with the actual result of 23.9% in 2014/15, which is better than the projection of 24.2% in Budget 2014.

Expenditure to GDP ratios are reflected in the following table:

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual
			Per cent of GDP		
Core Program Expenditure	20.1	21.2	19.7	19.6	19.3
ORE Expenditure	3.4	3.6	2.9	3.1	3.2
Debt Servicing Costs	1.5	1.5	1.4	1.3	1.3
Total Expenditure	25.0	26.3	24.1	24.1	23.9

Notes: Numbers may not add due to rounding.
Prior year numbers are restated.

Measurable Outcome – Sustainable Management of Public Resources

Sustainable management of public resources is key to keeping government effective, now and into the future. Government continues to explore ways to make sure that public spending remains under control and that tax dollars are used effectively and efficiently.

The government continues to move forward on containing core government expenditure growth. Meeting government priorities and getting back to a balanced budget requires continual review and reprioritization of existing funding and streamlining internal operations to find opportunities for lowering costs.

Manitoba is committed to fostering a culture of continuous improvement throughout government in order to maintain the tradition of affordable, innovative and effective public services that Manitobans have come to expect.

A key part of this effort is the engagement of government employees at all levels in the discussion about ways to make the Manitoba government more efficient, more effective, and ultimately more sustainable. In December of 2013, the Clerk of Executive Council launched an internal government website to provide a hub for discussions on the future of the civil service as well as a source of essential information to support civil servants to find ways to effect positive change in their workplaces. One feature of this website is an online "suggestion box" for employees to submit their ideas for improvements. Over

130 ideas for ways government can find efficiencies and improve effectiveness have been submitted by civil servants and the Clerk of Executive Council is working with departments to evaluate and implement the best of these ideas.

The 2014/15 fiscal year also saw the establishment of a new Lean Advisory Council to advise government on ways to apply lean management principles to deliver excellent public services for the best value. Under the leadership of this council, government departments are identifying ways to make their operations more efficient by eliminating any duplication or redundancies. The initiatives also include ongoing reviews of the current processes to deliver services, aiming to reduce administrative costs, while ensuring service levels remain constant.

The 2014/15 fiscal year saw increased adoption of lean management approaches by departments, demonstrated by the success of pilot projects in a number of departments including Conservation and Water Stewardship, Jobs and the Economy, Justice, Mineral Resources and Municipal Government. Examples of the service delivery improvements resulting from this process include:

- the Companies Office, which handles more than 90,000 business/corporate registrations and corporate annual returns annually, reduced turnaround time for processing corporate annual returns from over 18 days to 8 days, a 56 per cent improvement; and
- the Environmental Stewardship Division of Manitoba Conservation and Water Stewardship, which administers the Water and Wastewater Facility Operator Certification process, reduced the average number of days from the time an application is received to a certificate being issued from 44 days to 24 days, a 45 per cent improvement. The average number of days from the time exams are written to when transcripts are issued was reduced from 39 days to 12 days, a 69 per cent improvement.

During 2014/15, the government met its commitment to reduce the civil service by 600 over a three year period. Manitoba will continue to manage the size of government by carefully reviewing the staffing of positions while protecting the services that Manitobans need.

Success in the planned office space review resulted in the reduction of over 140,000 square feet, surpassing the 100,000 square feet reduction target by 40 per cent.

In 2014/15, over 50% of the departments in core government managed their allocated resources carefully resulting in an under expenditure that was used to offset the increased funding requirement in some vital services including supports to families and health care.

The government values reforms that improve accountability and transparency and support sustainable programs that protect the priorities of Manitobans. Initiatives will continue to reduce costs while protecting front-line services.

■ PRIORITY AREA – MANAGING DEBT

Over the years, the government has continued to implement a number of specific initiatives to ensure sound fiscal management. These include addressing the unfunded pension liability; funding the employer's share of current service pension entitlements; ensuring all capital investments are amortized and all related costs are fully reflected in annual appropriations for core government; and establishing a plan to address core government deficits during the economic recovery period.

Measurable Outcome – Debt Management

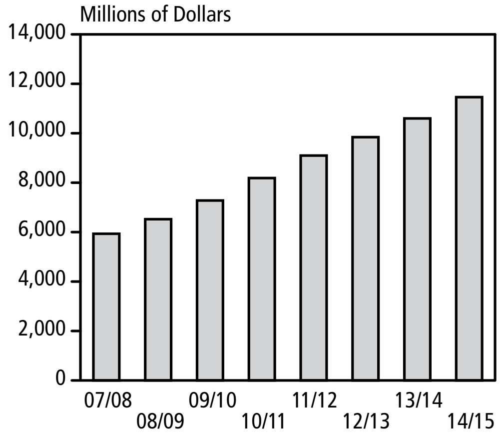
Solid debt management consists of a plan to address general purpose debt and the pension liability while making needed investments in Manitoba. The net debt to GDP ratio is one of the key indicators used by credit rating agencies in their analysis because it measures the level of debt relative to a jurisdiction's financial capacity. While deficits and the increased investment in capital assets will add to the net debt in the short term, spending on core infrastructure is a priority of government because of the economic growth it creates. Increased investment in a core infrastructure plan and continuing investment in education and technology, lays the groundwork for sustainable economic growth to create good jobs, and keeps Manitoba competitive.

Manitoba has a solid debt management plan which includes addressing the previously unfunded pension liability, budgeting for the employer's share of current service entitlements for all employees, ensuring all capital investments are amortized and all related costs are fully reflected in annual appropriations, and continuing to make debt repayments to mitigate core government operating deficits.

Direct action to address the unfunded pension liabilities for the Civil Service Superannuation Plan (CSSP) and the Teachers' Retirement Allowances Fund (TRAF) began in 2007/08 with the province borrowing funds that have been invested by these two pension plans on behalf of the province.

The government continues to recognize capital investment as a priority in order to support economic growth and related new job opportunities. The cost of these assets is amortized over a set period that represents the useful life of the asset as required by GAAP. The end result is increased infrastructure investment for Manitobans accompanied by a fixed discipline for paying down the associated debt.

Tangible Capital Assets - Net Book Value



Source: Manitoba Finance

Investment in tangible capital assets has increased steadily over the last decade. The investment in core assets and other government entity assets of $1.5 billion in 2014/15 resulted in a total value of $19.3 billion at March 31, 2015, with $7.8 billion of related debt retired through accumulated amortization. The net book value of these assets (cost less accumulated amortization) has more than tripled since 1999/2000 to $11.5 billion.

Manitoba's communities and the economy have benefited from the significant investment in infrastructure such as roads and water-control structures as well as health facilities, universities, colleges and schools, and parks. To meet the needs of today's and future generations, it is necessary to continue to invest in the renewal of these assets. The public good provided by these investments is immeasurable. It is estimated that the insured or replacement value of these investments is over $40 billion.

Manitoba's balanced financial strategy maintains the legislated requirement to dedicate at least $600 million of the balance in the Fiscal Stabilization Account (FSA) to the amortization of increases in the general purpose debt, including related interest expenses that are attributable to negative net results incurred during the period of economic recovery. Funds in the Debt Retirement Account (DRA) were withdrawn in 2010/11 to repay $145 million of debt. Since 2010/11, a total of $515 million has been withdrawn from the FSA for the additional debt and interest payments.

Strategic decision making has resulted in debt servicing costs as a percentage of revenue decreasing. Since 1999/2000, the debt servicing cost rate has dropped by 56.8%, from 13.2¢ of every dollar of summary revenue collected to 5.7¢ in 2014/15.

The government remains committed to reducing debt over time with an ultimate goal of eliminating the general purpose debt and the remaining unfunded pension liabilities.

Measurable Outcome – Net Debt to GDP Ratio

The net debt to GDP ratio is an important indicator of a government's financial position as this highlights how government services will remain affordable in the future. Summary net debt represents the difference between total liabilities less financial assets – it reflects the residual liability that must be financed by future revenues. Net debt may grow as needed investments in capital assets – like the Red River Floodway, highway infrastructure, water control structures, hospitals and schools – are made. These forward-looking investments help support Manitoba's economic long-term productivity, attract investment, increase trade, and create jobs and new opportunities for young people. Therefore, it is important to measure changes in net debt against the growth of the economy, as measured by the nominal GDP.

Over the past 14 years, the summary net debt to GDP ratio has fluctuated but at 29.8% remains lower than the 32.9% recorded in 1999/2000 and equals the forecast included in Budget 2014. Manitoba has acknowledged that as a result of the decisions to make significant investment in infrastructure projects, notably the five-year core infrastructure plan, the net debt to GDP ratio was expected to increase in the short term. Manitoba is committed to maintaining its net debt to GDP ratio in line with the average for Canadian provinces and returning to a downward trend in this ratio over the longer term.

■ PRIORITY AREA – FIVE-YEAR CORE INFRASTRUCTURE PLAN

Building and upgrading Manitoba's infrastructure has been a priority for the government since 1999. The government announced an economic stimulus investment plan in November 2008 to fund key infrastructure projects across the province. Manitoba has also dedicated revenue raised through fuel taxes to fund infrastructure, participated in the national stimulus program that began in 2009 and, in 2011, committed to providing the equivalent of 1/7th of the provincial sales tax to support investment in municipal infrastructure and public transit.

Measurable Outcome – Core Infrastructure Investment

Manitobans recognize the importance of investments in infrastructure such as roads, highways and bridges, flood restoration and protection projects and municipal infrastructure including roads and clean water. Budget 2014 reinforced the commitment to infrastructure investment with the introduction of a new five-year, $5.5 billion core infrastructure plan.

To meet these important infrastructure needs, the government committed that it would invest more than the revenue raised from the additional point of PST introduced in 2013 into new investments in core infrastructure, over and above existing spending levels. In 2012/13, prior to the increase in the PST, the base level of investment in core infrastructure was $729 million.

2014/15 is the first year of the plan. In total, core infrastructure spending was $1,037 million, $28 million over the government's investment commitment.

	2014/15 Actual	2014/15 Budget
	(Millions of Dollars)	
Roads, Highways and Bridges	696	707
Flood Protection	64	42
Municipal Infrastructure*	277	277
Planned Investment	**1,037**	**1,026**
Base Funding Level	729	729
1 point PST Commitment	275	276
Investment Commitment	**1,004**	**1,005**
Less: Federal Cost-sharing	(5)	(17)
Investment Over/(Under) Commitment	**28**	**4**

* Building Manitoba Fund net of transit operating grants

Future investment over the term of the core infrastructure plan will consider the final result in each year to ensure that the commitment to invest more than the revenue raised from the additional point of PST into new investments in core infrastructure, over and above existing spending levels, is met. While the 2013/14 fiscal year is outside of the plan, the net result of that year will also be considered.

Additional information on the Core Infrastructure Plan, including detailed project information, can be found at www.steadygrowth.ca

■ SUMMARY

The government remains committed to enhancing transparency and accountability of financial reporting and integrating it with reporting on non-financial information. Manitoba will continue to report annually on the priority areas and outcomes set out in the annual update of the Financial Management Strategy in order for the public to assess the success of the government's performance in the effective, efficient and economic use of public funds.