



Legislative Assembly of Manitoba

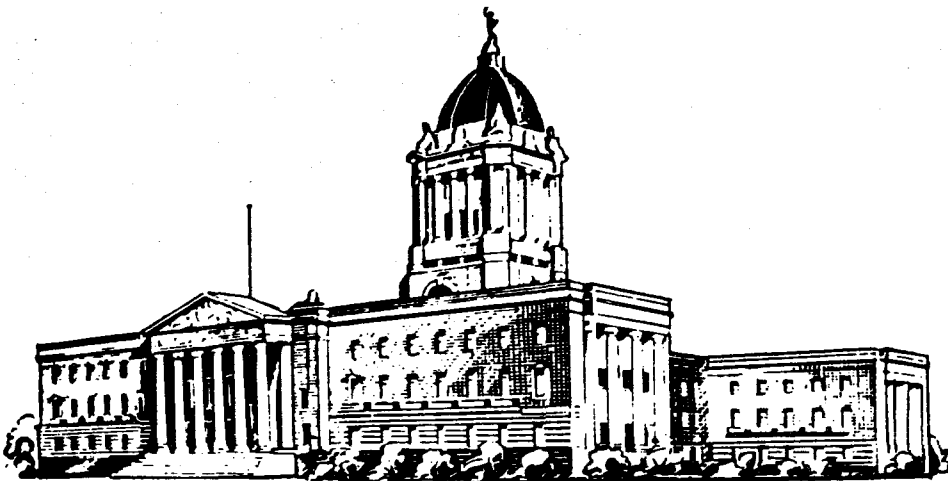
PROCEEDINGS OF THE STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman

**Mr. D. James Walding
Constituency of St. Vital**



10:00 a.m. Tuesday, February 28, 1978

Public Accounts

Tuesday, February 28, 1978

Time: 10:00 a.m.

CHAIRMAN: Mr. D. James Walding (St. Vital)

MR. CLERK: Gentlemen, the hour of 10:00 has passed and the majority of the committee is here. I would suggest that we get to business.

MR. CHERNIACK: I'm just wondering if, getting to business, I could file a resignation and replace the resigned member.

MR. CLERK: I think this should be dealt with by the chairman of the committee.

MR. CHERNIACK: You'll see the reasons, Mr. Clerk.

MR. CLERK: We have received a letter from Mr. Schreyer to the effect, please accept this letter as my resignation as a member of the Standing Committee on Public Accounts as of this date, which of course will mean that someone will have to be nominated to replace Mr. Schreyer. I would prefer that might be dealt with by the committee when the committee is properly constituted and it has a chairman.

MR. CHERNIACK: Do you see any impediment to nominating and electing this person in advance?

MR. CLERK: None at all.

MR. CHEIACK: Well then I would nominate Mr. Walding.

MR. CLERK: I'm sorry, I didn't catch the name.

MR. CHERNIACK: Walding, James.

MR. CLERK: Are there any further nominations? Hearing none, I would declare Mr. Walding to be a member of this committee.

The next item of business of course would be the election of a chairman. Are there any nominations for chairman, please?

MR. CRAIK:: I nominate Mr. Walding.

MR. CLERK: Mr. Walding has been nominated as chairman. Are there any further nominations? Hearing none, I would ask Mr. Walding to take the chair.

MR. CHAIRMAN: Order please. Is it the wish of the committee to deal first with the report of the Provincial Auditor? Mr. Craik.

MR. CRAIK: Mr. Chairman, that's the usual procedure, to deal first of all with the Auditor's Report and thence to the Public Accounts. As the committee may or may not be aware, in former years, in the last several years we have never got on to the grey book, Public Accounts themselves, and we've ended up not having approved the Accounts in a number of years. It is our intent to go through both the Auditor's Report and the Public Accounts some time before the end of the session, depending on how long it takes. How long it takes won't really be the determining factor but we do intend to go through the Public Accounts. This may mean that in the event we get hung up too long on the Auditor's Report that we'll switch over to the Public Accounts to make sure that there is at least an opportunity for the committee to have a look at the Accounts as well as the Auditor's Report. The usual pattern is to start on the Auditor's Report and it would be our recommendation that we proceed in that way.

MR. CHAIRMAN: Thank you. There are a few formalities, gentlemen, before we get on to the Report and that is the setting of a quorum. There are 11 members of the committee. What is your will and pleasure? Six members? The majority being six? Agreed? (Agreed)

Do you wish the proceedings of the committee to be recorded and transcribed? Agreed? (Agreed)

Mr. Wilson.

MR. WILSON: On a point of clarification. I wonder if the Finance Minister could indicate, is there any particular reason why in past years the grey book or the Public Accounts haven't been sort of looked at by the committee?

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well the committee normally sat during the period of the Legislature, when the Legislature sat itself, and as the other committees were also sitting at the same time I presume that it wasn't propitious to have the Public Accounts Committee take precedence over some of the other committees and as a result the Public Accounts Committee got squeezed out at the end of the session without having actually been called. The matter was raised in the Legislature on a number of occasions but in actual fact there was no clear reason indicated why they weren't called. It would be our intention from here on in to have the accounts of the province prepared earlier in the year so that this committee could sit perhaps in the fall of the year rather than at this time of the year or during the period of the session itself, No. 1 so that the accounts could be examined. Unfortunately the accounts that we're dealing with now deal with matters that are at least 12 months old or more, anywhere from perhaps 11 months up to 23 months old. We are trying to move ahead examination of the accounts or move it closer to the date of the cutoff which is March 31st of each year. We will attempt to have the accounts examined normally in the fall of the year.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: So it would be fair to say that possibly if we are meeting in the fall we may be examining past government expenses as well at that time if these accounts that we are looking at now are over a year old.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well if we meet our objective of what we intend to propose in the way of changes, you will be looking at the accounts end March at 31, 1978 next fall rather than looking at them in March of '79.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Mr. Chairman, isn't it correct that in previous years the committee was not constituted intersessionally but that due to legislation — I think it was a year ago or a year and a half ago — the Public Accounts Committee is now structured so that membership is established during the Session itself and the membership continues on for the life of the Legislature. So that in fact the Committee can be called at any time whether it's September, June or when the Session is on, and it's only because of the change in the legislation I think in '76 that that became possible.

MR. CHAIRMAN: Page 1. Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, Page 1 is where the Provincial Auditor sets out his responsibility to the Legislative Assembly and it occurs to me to ask whether there has been any change made in the procedure whereby an MLA may require from the Provincial Auditor information which he needs for his work in the Legislature. I raise that because it would appear or I would interpret from a newspaper story that certain MLAs have been abusing their privilege by going after the Provincial Auditor too much. I want to ask Mr. Ziprick if he has had any problem in relation to MLAs dealing with him?

MR. ZIPRICK: No, the procedure that I have been following is that any new information I will not discuss with the MLAs — that has to be first reported to the Legislature and be part of the information that's been released public — but any information that's public and released by me or in the Public Accounts and any MLAs that have difficulty in interpreting it come to me and ask for my assistance and if I can be of any assistance, I am pleased to be of that assistance. And whoever has appeared, that's the position I take and I have assisted in the various explanations of dealing with information that's been released, but I do not release new information or comment on information that has not been public or has not been presented to the Legislature.

MR. CHERNIACK: Well is that then the distinction as to the approachability to the Provincial Auditor of information which is already covered by the financial statement which has been submitted and information not yet reported to the Legislature? Is that the

distinction?

MR. ZIPRICK: Yes, I will not release any information that hasn't been made public one way or another, either through the Public Accounts or through my report. If an MLA wants to get information that hasn't been released he has to go to the particular Minister or the Minister of Finance and get it from there. I will not release it. On the other hand if the information is in my report or in the Public Accounts and the MLA has difficulty understanding it and he comes to me and places his problem before me and I can be of assistance in explaining what it's all about, I'll do that. And in addition I have also said on a number of occasions that if an MLA becomes aware of some particular difficulty of a financial nature and he wants to present it to me, I will accept that information and chase it down but I won't report back to him the results but I will certainly chase it down and take whatever action is necessary and if it's the kind of information that could lead to some disclosure of impropriety then I would take the appropriate action to correct it.

MR. CHERNIACK: Mr. Chairman, then I ask Mr. Ziprick if that is the explanation for the statement in this press report — looks to me like the Tribune type — which says that requests were made to the Provincial Auditor who then referred the MLA to two government employees who had access to the files. Does that then mean that these requests related to unreported matters?

MR. ZIPRICK: No, these requests related to material in the Public Accounts. But when requests are made to me as to what's in the Public Accounts, I will provide explanations on the basis of what I have but if there is a need to see the actual documents and we don't have the documents, it's the Department of Finance that has the documents so I said, well if you want to see the vouchers and the particulars in there you will have to go to the Department of Finance and get them from the Department of Finance because we don't make a practice of going to Finance, getting vouchers and then making them available to MLAs. I think that the MLAs should go and get it from the source but when it's something that I can provide explanations on the basis of what's in the Public Accounts and what I know I will do that. In this case the request if I recollect was some information dealing with vouchers and what was in the Public Accounts. I said we will not go and get the vouchers for you, you will have to go to the Department of Finance and get the vouchers from the Department of Finance.

MR. CHERNIACK: Mr. Chairman, may I then ask the Minister of Finance if he would make these vouchers available of matters that have been reported in the Public Accounts?

MR. CRAIK: Mr. Chairman, the point at question here is whether the questions first of all relate to the accounts that are coming forward to the committee in which case this committee provides the opportunity for the MLA to ask for details on the accounts. That's if they are dealing with matters that are in the period dealt with by the accounts. If they are current matters in the current year then there will be some reticence likely on the part of staff to deal with it if they feel that it should be dealt with by the Minister.

I give you an example separate from that; there were MLAs from both sides of the Legislature that came to staff members in the last two or three weeks with concerns about the issuance of T4 slips to MLAs. They didn't come to me directly. The staff felt that it was a matter that had to be referred to the Minister and we looked the matter over and attempted to clarify it for all members of the Legislature.

MR. CHERNIACK: That's why we got two T4 slips.

MR. CRAIK: That's why you got two T4 slips. But in a case like that then it's in order, I presume, for you to go to the staff. Whether or not vouchers are issued is quite another matter. I think that should be again, the staff I think in general would want to refer most of these matters to the Minister if it deals with current matters. If, on the other hand, though, it deals with matters that are in the Accounts, the place to ask for that information is at this table in Public Accounts.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I'm still not quite clear on this. Mr. Ziprick referred to matters which would have been reported in the Public Accounts and already distributed and yet he said if it came to details such as what is contained in vouchers that that is beyond his — well he didn't say "beyond his scope" — but that's something he didn't have in his control and therefore he would send it on to the department. Therefore my specific question to the

Minister of Finance was, would those matters already reported on be made available to MLAs such as breakdown and that are not set out in any vouchers?

MR. CRAIK: Well that, Mr. Cherniack, as you know is what has been the pattern in this committee, that if matters are raised they're reported on by the Finance Department, have traditionally been. If you ask for certain matters that are in the Public Accounts for elaboration the usual practice is for the notice to be taken by the Finance Department and related.

Now if you're asking whether this is done outside this committee, I don't think that that has been done. To the best of my knowledge that practice is not followed.

MR. CHERNIACK: Then may I ask, Mr. Chairman, and I don't believe it's so but I'm wondering if it's possible that there is a distinction made between MLAs of the Conservative caucus and other MLAs, because apparently the Conservative caucus MLAs received certain letters setting out a procedure which the rest of us, to my knowledge, at least which I didn't receive and therefore I'd like to know what information was given to the Conservative MLAs and whether it applies to them only or applies to all MLAs.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, I think perhaps Mr. Jorgenson could advise you of the fact that . . . I can't answer as to whether it went out to all MLAs or went out to just the members of the . . .

MR. CHERNIACK: Well, you wrote the memo, it says.

MR. CRAIK: Well, you're going to have to show me the press article. I'll take it as notice if you consider it of considerable importance. I'm telling you the practice that is to be followed is documentation of information on Public Accounts comes through this committee in the same pattern as has been established and there's been no change to that.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well, Mr. Chairman, it is of sufficient interest to me to ask for — well it's not for me to ask for copies of letters sent by a Minister to an MLA of his own party, but for clarification as to whether there's any difference in approach between that of Conservative MLAs and all MLAs dealing with the accounts already before the House and whether Mr. Craik is prepared to give us the information or rather give us copies possibly of the letters that he and Mr. Jorgenson sent to Tory MLAs — I'm quoting from the newspaper article — and to tell us whether it applies to all MLAs as it does to the Conservative MLAs, and if he doesn't have the information now or wants to consult, could he at the next meeting this afternoon or tomorrow, respond to my request?

MR. CRAIK: Well, Mr. Chairman, I'll take it as notice and have a look at it. But to answer Mr. Cherniack again, the procedure that has been followed and is being followed, and in any indication that I have given in writing to anybody, simply stated that information on Public Accounts, dealing with the current year under — I shouldn't refer to the current year — the particular year under discussion by the Public Accounts Committee, that information has been and will be available from the Finance Department as this committee determines.

If it deals with the current year, the present year, if there's information required within the department that the usual form and pattern and mechanism be followed would be that the request go through the Minister. And I don't rule out the possibility that from time to time that there are going to be requests such as the one that I have indicated to you that came from both your own party, the New Democratic Party and the Conservative Party. There were requests that went directly to staff people regarding the T4 slips which you in your own wisdom or otherwise decided would go directly to the department, not to the Minister, and you got the answer, and the answer came to you. Now that dealt with a current problem. But normally if it deals with Public Accounts the instruction is the same to both sides of the House and to all members of the Legislature, and the accessibility of the auditor himself has been well explained by the Auditor here, it's the same to both sides of the House.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I appreciate Mr. Craik's information to us. It is helpful. But the specific question that I don't think he answered was, is there any difference in the manner in which information can be given to a Conservative MLA — and I mean backbench of course — and

that of an opposition MLA? And if there is not any difference then is he prepared to give us the same information that he gave to Conservative MLAs in his letter and Mr. Jorgenson's letter that are referred to in the newspaper clipping?

MR. CHAIAN: Mr. Craik.

MR. CRAIK: The procedures are exactly the same for either side, that on questions dealing with accounts current, that they should go through the Minister.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, does that mean that these letters will not be given to us? We won't know what was told the Conservative MLAs.

MR. CRAIK: Well, I'm going to have a look at this and see if that's exactly what it refers to, if it refers to the rules that apply to this committee. If that is the letter that's being referred to here I'd be most happy to make it available.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well, by all means, Mr. Chairman, if Mr. Craik doesn't know what is the contents or wants to refresh his mind, by all means. Possibly tomorrow morning this could come back on the agenda and we get it so we know.

MR. CHAIRMAN: Mr. Jorgenson.

MR. JORGENSON: I think that Mr. Cherniack should understand that members of the committee from the NDP party are all experienced members. They know the routine, they know the procedures that have been followed in the past. It was not necessary to inform them of the manner in which the committee operates.

Some of the newer members on this side of the House were unfamiliar with the practices and what had happened is that they were asking questions about just what happened and where they could get information and how they could get it.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well, Mr. Chairman, may I firstly point out to Mr. Jorgenson that we have a new member as well of the committee.

MR. JORGENSON: He's not unfamiliar with the practices of this committee.

MR. CHERNIACK: Well, I don't know. I don't know the extent to which Mr. Jorgenson knows, what he's familiar with or not. But as I understand the newspaper clipping, which may be completely false, the newspaper clipping says that the letters from Mr. Jorgenson and Mr. Craik went to all members of the Conservative Party and if they went to all members of the — Mr. Chairman, I'm not talking to a machine, I'm talking to members of the committee and to the ministers — and my understanding of the clipping is that this letter went to all members of the Conservative caucus, and if that is the case then it didn't spell out the duties and rights of members of the committee, but rather that of all MLAs, and all I want to make sure is that opposition MLAs have the same access to information as backbench Conservative MLAs. That's the assurance I would like and if so I would like to know what they were told so we would know.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, there is no intent here to in any way avoid the question. The article referred to as I read it here says, that a Minister, myself, sent a letter out to all Tory MLAs. I don't know that there was a letter went to all Tory MLAs. I know that there was a letter sent to Mr. Wilson in response to a particular question and then I asked Mr. Jorgenson to generally take under consideration and advise of procedures that were to be followed in this particular committee. So I will say, first of all, that I don't think that the letter went out to all so-called Tory MLAs. There was a particular letter that I addressed to Mr. Wilson on a particular question and suggested that inquiries to the committee should be directed to myself as Minister. That's the same information that would go to every MLA in the Legislature. But I will take the question as notice and find out if the report, as indicated in the newspaper, is correct. I don't think that it matters a great deal. The procedure that was recommended to Mr. Wilson is exactly the same procedure as Mr. Cherniack I think now knows applies to all members of the Legislature.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, dealing with Page 1, I would like to ask through you to Mr. Ziprick, it indicates under Item D, that as to all cheques for the issue of which he has refused to certify, citing the date and the amount of any expenditures incurred and the consequence thereof, were there any such instances in the year 1975-76?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, there weren't. As a matter of fact I don't remember of an instance where a cheque has been refused. The procedure has been that on occasions I have found that I could not pass the payment, but then it was recirculated and whatever steps were needed to correct the situation it was corrected and then it came back as an acceptable payment. But there was no payments made that I was not the party to, approving the payments, and if there had been I'd be required to report to the Legislature.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, I wonder under Item E, as to any important change in the extent of character of any examinations made by the Auditor, I was wondering if, were there any particular instances that you'd like to draw to my attention, or the committee's attention?

MR. ZIPRICK: No. There's been no major changes in our audit procedures. They're the same as have been over a number of years.

MR. MINAKER: Same as the previous year.

MR. ZIPRICK: Yes.

MR. MINAKER: Thank you.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well, getting back to some of the comments by Mr. Cherniack at this table, I note with interest in May of 1973, to add further confusion to the situation, Mr. Paulley at the time said that the proper place to tackle any expenditure in this department was the consideration of Estimates. And Mr. Cherniack at the time was attempting to confuse or muzzle Mr. Asper throwing the same line of questioning that many members will probably fall into the trap of doing, is to raise particular questions on items relating to the Public Accounts.

So when a new member gets this 1973 debate in Public Accounts and sees where Mr. Paulley indicates that the proper place to ask questions is when the consideration of Estimates, then the Minister of Finance here says the proper place is at this table, it would seem to me that if you were to ask questions in a public form like this that possibly were of a suspect nature, or of an innuendo nature that it would seem to me it would be proper that prior investigation should take place so that innocent people aren't raked over the coals. What I am talking about is that some expenditures will appear in the grey books to be rather confusing to one who doesn't know the inner workings of the Finance Department. One might see an item like, for instance Washtronics or something where there is \$400,000, immediately he might suspect it's for car washes, where it might very well be for equipment. These are the kind of things that I think do sort of necessitate a bit of prior looking at and I would hope that the current Finance Minister would consider that so that next Fall when we meet there is a clear indication of the rules of the game when we come to deal with the situation.

As to the Auditor, I am glad he did say he would chase it down because in this very same debate the Auditor had mentioned that he'll look at all leads — we, the members, were to submit our observations and he'll carry out the necessary investigation. Again, I don't know whether I completely agree with him that he would report back his findings because that means a particular member who has raised these particular questions would then have to wait to the following Auditor's Report to find out if the situation which he had raised and had hoped would be investigated had indeed been accomplished.

So with those few comments I just wanted to set the record straight that back in 1973, the period Mr. Paulley didn't feel that Public Accounts was very important and wanted it to go into the consideration of Estimates, and here we have the current Finance Minister who is saying that all questions should be raised at this table and, of course, then all the members or the Auditor and his staff will investigate and hopefully make the necessary corrections,

Public Accounts
Tuesday, February 28, 1978

except there is the danger, as I mentioned, that some questions might allude or suspect somebody is getting favoritism and it might not be really fair . . . but those are some of the questions that may be asked. I think really there should be consideration given to looking at some of these things prior to sitting down at this meeting because the purpose of this meeting is to examine the books and I would wonder how many members of this committee have gone and looked at the microfilm, if they know exactly where these vouchers are kept. These are all things that the committee members could be made aware of if they were inclined to want to find out where all this information is prior to sitting down at this table.

MR. CHAIRMAN: The reason we're having some little difficulty with the sound system is that it is a new system. I am told it is much more sensitive than the previous one and it is not necessary for members to speak so closely into the microphones as we did last year. Page 1, Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, the point Mr. Wilson raises is of interest to me. Apparently he finds that the Minister of Finance is attempting to "muzzle" some efforts. The reason I use that word is that he seemed to compare the present minister's treatment of questions the way he says I did back in 1973 and I think that it might well be a matter for this committee to elaborate on the problems Mr. Wilson has in order to see whether this committee could not come up with some directions to the Auditor and requests to the Minister to see whether there couldn't be a greater accessibility of information. If Mr. Wilson is suffering from lack of availability of information then maybe this committee ought to explore the extent to which he is being defeated in his efforts to be a conscientious MLA. If there is that problem, I think it might be of value for this committee to explore it. I wonder what Mr. Craik thinks about that.

MR. CRAIK: Mr. Chairman, I think this debate has pretty well exhausted itself. I trust it has. Not that there is any particular reason to not deal with it except there are substantive matters to be dealt with in the forthcoming period of time with the role of the Auditor and control mechanisms within the departments that will perhaps alleviate some of the repetition of comments in further years that are contained in the Auditor's Report. I think those matters are important and should take precedence in being dealt with at this meeting.

MR. CHAIRMAN: Page 1, Mr. Wilson.

MR. WILSON: Mr. Chairman, just to end it then. My concern was that by channeling all requests through a minister for information, what you are doing is tying up the civil service in matters which could very well be done by somebody who has the time and is willing to make the effort to go and look at the microfilm and make sure that all his particular research is done. That's the thing that I am asking the current minister to consider so that next time we meet, that a particular MLA who is directed to have a number of queries out of the grey book — and I say a number — I would submit that it would be irresponsible for someone to take a whole page in this grey book and ask the Provincial Auditor or the Minister of Finance to give the vouchers for that entire page. I would think that a particular member could go and get those particular vouchers and look at them. I don't think an Order for Return is the answer because I have two eyes, I can see, and I would like to be able to tie up only a particular middle-income secretary rather than tie up some of the top administrators in the Minister of Finance's department.

So that's basically it. It's looking to a particular policy in the future that would resolve Mr. Asper's problems that he ran into in 1973 where he had to hire his own staff to do his investigating and where I am willing to do some investigating on my own time and I don't feel I should be tying up the civil service.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, just on a . . . it's almost a matter of privilege now. If it can be assumed that I was supporting Mr. Wilson in his efforts, I want to withdraw that impression immediately. I do not feel that any MLA should have any access to microfilms or start looking back at details of the accounts of the province. I think it would be an awful mess if that were possible. I do not support him in that effort.

MR. MINAKER: So endeth the debate.

MR. CHAIRMAN: Page 1—pass; page 2—pass. Page 3. Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Ziprick. It's indicated under dealing with departments for physical accounting purposes, statements made that it is felt that supervisory surveillance, inquiries at time of replacement, etc., provide sufficient control

Public Accounts
Tuesday, February 28, 1978

over office furnishings. I think later on in the report there was an indication that there was advanced spending in the Department of Public Works, if I remember correctly, further on when we deal with that matter. Was that related in any way to this fact that there wasn't closer control over say office furnishings, etc., other than the supervisory surveillance?

MR. ZIPRICK: No, there is no relationship, this purely deals with the physical accountability for the furniture and equipment rather than maintaining specific records of the ins and outs and taking inventory and comparing. These records are not maintained. It was explored a number of years ago about the possibility of maintaining such records; it was found it would be a very costly undertaking and the conclusion was come to that the surveillance in replacements and whatever have you would be sufficient to oversee the physical accountability of those assets. What the other portion deals with is the actual approval for purchasing and is not related to the physical accountability.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: I trust we are on page 3. Through you, Mr. Chairman, to Mr. Ziprick. Under the Public Buildings, Public Works, etc., there is an item, Capital advances to Communities Economic Development Fund, converted to conditional grants. On the basis of that conversion to conditional grants, are those conditional grants recoverable or should the word "conditional" be removed? Are the monies recoverable as such?

MR. ZIPRICK: These are advances made to the Communities Economic Development Fund and then the amount that is established as possibly uncollectable is written off and these are the amounts. But if by any chance there should be a collectability then these are conditional. If a collectability is made on those accounts that they would be repaid to this account. So it is a condition all right and it's a valid condition because although they are considered as likely to not be collectable they still have not been disposed of and as long as the organization is still functioning there is always a possibility of collecting; when a collection will be made then it will be returned.

MR. ORCHARD: I guess my question is maybe unanswerable, but at what point in time are conditional grants considered non-conditional? Who makes the decision as to when they are no longer collectable or . . . ?

MR. ZIPRICK: The decision is made at the Communities Economic Development Fund. In the first instance when a review is made to determine the position of the financial statements for that particular year, a reserve is provided as to how much is anticipated will not be collected. Then, at a subsequent time, when an account is foreclosed and put into receivership, and whatever has been realized, the net loss for that particular account is established and that's when it is really finalized. So, it's a process that goes through the Communities Economic Development Corporation and the flow from conditional to unconditional in the province's accounts will have to be adjusted on the basis of experience in the Development Fund.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, I am sort of hopping over the next page because I think it relates to the same question as Mr. Orchard's. Then through you to Mr. Ziprick. Where you indicate that the conversion of Communities Economic Development Fund advances of 2.2 million to 2.1 million conditional grants, that was the amount for this year being general advances. But then you say and 2.1 million unconditional grants. Were these unconditional grants then? That's the amount that was presumed by the Communities Economic Development committee for that year, that there was no way they were going to get the loans back, or did it cover some other area?

MR. ZIPRICK: No, this is a separate situation whereby \$100,000 was guaranteed by the province. In other words, the Communities Economic Development Fund of its own, if I recollect, said "Well, we would not undertake this account" but the government said "Well, yes undertake it and we'll guarantee it." And because the government guaranteed it, it was made unconditional immediately. So, in effect, it was an account that the government had asked the Fund to undertake.

MR. MINAKER: Mr. Chairman, where would it occur in the balance sheet when it was recognized that the conditional grant was written off? If there was a particular company that the Communities Economic Development Fund had invested in that went into receivership, where does that appear? If there is say 2.2 million in unconditional grants and there is no return on any of the assets, where would the loss be entered into the . . . ?

Public Accounts
Tuesday, February 28, 1978

MR. ZIPRICK: Well, both the conditional and the unconditional grants are in the same account in the province's books so it would be just a change from one classification to another classification. The write-down in the province's books itself would be when the debt is repaid. So dealing with the way the capital situation is now, to the extent that these advances are covered by the province's borrowings, that amount is set up on the other side as an asset. Now whether it is an asset or not, that's not the question. In other words, it's an

MR. MINAKER: In other words it stays there as an asset whether it is no longer an existing company or not?

MR. ZIPRICK: That's right. We have in here some old relief accounts that are still supported by public debt, still on the books of the province.

MR. MINAKER: Shown as an asset.

MR. ZIPRICK: Shown as an asset. Now they won't be written off until that particular debt is repaid. So in the explanation there it's indicated that once the debt is repaid then it's written off.

MR. MINAKER: Would you know how many million dollars listed in conditional grants at the present time that in actual fact no longer exist?

MR. ZIPRICK: There wouldn't be very much because this has just been started in the last couple of years, this system.

MR. MINAKER: When exactly, Mr. Chairman, was this practice started?

MR. ZIPRICK: I think about two or three years ago when it was decided that the Communities Economic Development Fund losses as such would not be carried as advances. This was the point that was raised, that previously they were carried as advances and looking at advances you would consider that as a recoverable item. Well it was found that most of this Communities Economic Development Fund was not recoverable and as a result it was decided to move it out of advances into this account as basically an offset to the debt and be handled in the system the same way as roads and highways. Now as a matter of designating conditional was that if there is any possibility of recovery that there will be a legal means to proceed and recover. If you declare them unconditional then in effect it's a forgiveness. So it's just a legal protection that in case anything is realized it's still alive legally to recover, but in effect both conditional or unconditional are treated just as an offset to the amount of debt. Now if we change to the net debt system all of this would be written out.

MR. MINAKER: My next question, Mr. Chairman, was is this a normal accounting procedure used by other governments?

MR. ZIPRICK: It has been used by some governments, I don't know if it is still used any more, there might be by an odd Maritime, but most of the governments that I am familiar with, that's Ontario, Canada, Saskatchewan, Quebec, Alberta, B.C., I think just changed recently or are changing. They don't follow that practice any more.

MR. MINAKER: Thanks, Mr. Chairman.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well following up what my colleague has mentioned, it seems to me that John Q. Public is going to have a bit of a problem because I remember in the 1976 Auditor's Report, and the Auditor can correct me, he was dealing with CEDF and the failures of all these fishing co-ops and what have you and I wonder by keeping this as an asset if we are not really taking the former government off the hook for the responsibility of this poor investment and I wonder if somewhere in the particular report it indicates how much money we did recover from legal means. Was our legal department able to recover anything or did they write off the debts for political purposes? What I am suggesting is that if other governments no longer use this, I would hope that the current Finance Minister would make the necessary changes because obviously the prior government was still dealing in sleight-of-hand or whatever in trying to paint these as assets when really they're not.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I am still on the first paragraph of Page 3. The statement is made that assets that would be considered assets I assume in normal accounting

practices outside of government are shown in an arbitrary way at values equal to the outstanding debts, which makes it appear that if a building is built out of current it is written off immediately as an asset, or if a building is built and repaid on a bond issue over five years it would be written off if it were clearly assigned that this bond issue was for that building or if the building was built over a 23 year period it would be written off over that period of time. I've never questioned this before but since some rather irresponsible statements were made last year about public debt and the burden of debt on citizens, I would like to get a comment from Mr. Ziprick as to the validity of showing the physical assets of the province in a way other than to equal public debt. What is the validity of the way it's being done and has been done traditionally all along and the normal accounting procedures that I believe use either valuations less income tax allowable depreciation or some other way?

MR. ZIPRICK: I raised the point that this is not a very good accounting procedure in the present context. It might have been many years ago when their specific debts were tied up to specific buildings but within the context of present operations this is really not a meaningful figure, all it is just an offset to public debt but it's no way a valuation of the kind, either historical cost or present value or any other way, of the kind of assets that have been built from public funds or been established from public funds and are still available to future generations. It's no way a valuation so it has to be understood is purely a figure that's offsetting to the public debt. Now to me the approach that's taken by Canada and most of the other provinces now is they carry the assets at one dollar and back of that there is an inventory of these various physical assets and their costs but they are not in any way associated with any particular debt is a better way and the debt itself just discloses how much net debt there is because this is not a commercial arrangement. In a commercial arrangement you've got an asset, that asset is being utilized in the production of income and being amortized into this income. The asset that's built from public funds is being used by the citizens and will continue to be used, but to try and value to what extent it's been used in any production of income and therefore measure it on a commercial basis just doesn't apply.

MR. CHERNIACK: Well, Mr. Ziprick, if we have a rental accommodation for let's say a government office, then we have to budget every year for payment of rent which probably includes amortization of the capital cost by the owner and profit on that, so that we have that one bit of space which has an annual charge against it. And if on the other hand we build a building without borrowing for it and in that way reduce future rents by a considerable extent, surely that building then is shown at nil in the present method of accounting and yet it is a lasting benefit to the financial statement of the following year and thereafter. Should there not be a distinction made between the two — rented and owned?

MR. ZIPRICK: Well you see in the public sector accounting as is generally now understood and carried out, you record what's required to be paid by the taxpayers during the year and to try and evaluate as to how much through the expenditures you are going to pass on to future generations in the same sort of context as the private sector and the private sector is doing it for a really completely different reason is really impossible because you'd evaluate that you are passing on certain assets that are going to be useful to the private sector but then there are all kinds of other ones that are difficult to evaluate and you get into an inconsistency. I think we talked about, for instance, expenditure on education. Now the amount of expenditure on education and on buildings themselves is relatively small in relation to the teachers' salaries yet the education that the people acquire and their increased productivity through that education to future generations can be substantial.

MR. CHERNIACK: A tremendous asset.

MR. ZIPRICK: A tremendous asset. So to say well this is a building just because it's a building and concrete, we will measure it as a benefit to future generations, then there's another thing that's invested that's not a building but in the form of something less tangible, as visibly, we would say well that doesn't come into the accounting. This is the difficulty it presents to try and rationalize that kind of accounting. In the private sector this kind of accounting of amortization of assets is done because it's associated with the income and you are trying to establish an equity position. In other words, you are trying to continuously determine an equity for distribution of profits for determining what I have in that business so that I can go and sell, whereas in no way that we're trying to establish an equity position here for the Provincial Government of Manitoba because first of all if we even did try, is anybody moving out of the province going to get any benefit out of it, so it would be an exercise that really wouldn't be useful. So what we are doing here in the province is trying to establish more as to what kind of a load is being passed on to future generations to service what's been done in the past.

Now the rationalization there . . . you know, there can be very substantial assets, we know there are very substantial assets but the question of being able to provide the funds to discharge these liabilities is not necessarily associated with those assets because the income comes from taxes, which takes on a completely broader perspective. So I think that

the important feature is how much debt and what are the charges being passed on to the future generations. Now there it's a matter of policy and what criteria to use; right now there are no established criteria as to where are the limits. We know the ultimate limit is if you can't raise any more money, then there is no way you could go into any more debt, but that's a very tragic position that you can get into. But before you get there as to what is a reasonable criteria, some percentage of gross product or whatever have you, I don't know. There are no established criteria as to what extent it's reasonable to go into debt, to pass on charges to future generations, except we know the limitation, that once you cannot raise any more money, obviously you won't be able to go into any more debt. But it's a dangerous situation to get to that point because the situation could be tragic. I think we didn't have to worry too much about this kind of thing in the past because we had a lot of slack and we were far from this situation.

I really don't know whether we are getting . . . and I am not even talking of Manitoba but the country as a whole, whether we are getting closer to the position where we could wind up in this kind of tragic situation that we couldn't raise money or not, I really don't know. Right now there is no criteria as such to look against as to what's reasonable to create debt and pass on to the future generation. I always take the approach that it's not my responsibility, that this responsibility rests between the people of Manitoba and its elected officials.

MR. CHERNIACK: Mr. Chairman, to Mr. Ziprick, if you prepare a statement to be understood by John Q. Public who has already been referred to and you picture two people living side by side, not business but homes, living in identical homes side by side, one is a tenant and pays rent and the other may have paid a onethird down equity and owes the balance of two-thirds on that property and he knows that in the foreseeable future that house will be paid off, would you say that they are both in the same position or would you say that the one who has debt is better off than the one who is debt free?

MR. ZIPRICK: Now we are talking about individuals and equity positions.

MR. CHERNIACK: No, not equity position because it's not a business operation, it's a person who is planning his future economic affairs in such a way as to in one case have no debt, the other case have a debt and acquire a home free of debt.

MR. ZIPRICK: Yes, but it's still an individual that hasn't got taxing powers over the whole economic system and so we can't compare that individual; when we are looking at it we're determining his equity position. Now to try and determine the equity position of the Province of Manitoba with its powers to tax the whole society in Manitoba, you can't determine the equity position in that same sort of way. So the whole evaluation is based on a completely different perspective and if we did arrive at a equity position in the context of business or a private individual, I'm not sure just what it would mean.

MR. CHERNIACK: Well, Mr. Ziprick, would you explain how valid it is for a person to say that our debt is X millions or billions of dollars which means that every man, woman and child in the province owes say \$3,500 because of the debt of the province. Would you say that that statement in itself is a sufficient, clear indication of the responsibilities of the financial position of the province?

MR. ZIPRICK: No, the way I understand it the people that are, for instance, evaluating the financial position of the province for bond rating purposes would take in account the entire debt liabilities of the province, not only the province but including the municipalities and other public institutions, then comparing it against the economy as a whole and its productive capacity. That's the point I was just trying to make that I am not in a position to say whether, you know, it's three thousand and something per person, and that's just an averaging, as to whether three and a half billion or four billion of debt in the Province of Manitoba is a reasonable amount to pass on to future generations or not.

It gets into a political policy matter and I am not in a position to comment. Now as to, you know, how close are we, Canada, to a bankruptcy position, I haven't got any idea because it's only when the investors that are evaluating it at some point or other say, "You are going too far, you will not be able to carry it, we can't sell your bonds any more," that's it. But that position as I know happens very quickly as New York has found out and is to sort of get some kind of an indication as to where the danger points. There are no standards to my knowledge and I don't even know . . .

MR. CHERNIACK: Well, Mr. Ziprick, I'm sorry, I did not ask you to go into the depth of international finance. I am just talking about the presentation of our Statement of Assets and Liabilities and I think you've agreed that many of the assets we have are not shown in the statement and therefore the debt shown in the statement does not truly reflect the position of the province in terms of assets as compared with debt.

MR. ZIPRICK: Yes, as far as the assets and to what extent we've got real assets that you could market and how much money you could get for the province's assets, there's no way that I know just what it would be.

MR. CHERNIACK: The fact is that the province is now busy selling off assets of the province and in doing that it is recovering some moneys and those moneys need not necessarily be reflected in the asset position that you have in this statement. Correct?

MR. ZIPRICK: That's right.

MR. CHERNIACK: Therefore, I suggest, and I am really not calling on you for comment on that, Mr. Ziprick, but, Mr. Chairman, I am saying it appears to me to be a irresponsible thing to do to take the total debt position and say this is the burden of the taxpayer without at the same time saying that much of this debt has offset against certain assets which may be education such as referred to by Mr. Ziprick but is more understandably physical structures which may be by their presence be saving money for the future in rents or other costs. I don't know whether it's fair to ask Mr. Ziprick to comment on that but I felt I should make that statement as a result of our discussion.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, on this point just in brief, I think Mr. Cherniack was suggesting in his opening sentences that there was misleading or irresponsible statements made in the last year regarding the debt.

MR. CHERNIACK: Absolutely.

MR. CRAIK: And I trust he's referring to the argument that was initiated by his own party in this regard when he said that there were irresponsible statements.

MR. CHERNIACK: No, by his Premier. His irresponsible Premier.

MR. CRAIK: Mr. Chairman, surely the nub of it is that there are a number of ways of expressing debt and we will come to a page in the Public Accounts here that indicates (a) Public Debt and if you divide through by the population of the province, you will come up with a figure that was used over and over again by Mr. Cherniack's government, the government of which he was involved in, that was used in speeches on budget addresses and by the First Minister of the day in telling the people of Manitoba that they had a certain level of public debt while at the same time which was achieved, Mr. Chairman, by taking the total debt indicated in these pages, dividing through by the roughly one million population of Manitoba and saying that is the per capita debt. But if you take the same approach and apply it to say the prospectus of the Manitoba Hydro who goes to New York to borrow money, as Mr. Cherniack I am sure is well aware, there is the very clear statement in there that the total debt, gross debt of the Province of Manitoba, including the guarantees by the government to its agencies or to whomever, add it all up, it comes to a gross debt of, at that time of the argument, was some \$3.4 billion and is now of the order of \$3.5 billion divided by the same one million people that the First Minister of Mr. Cherniack's government was using to divide through into the debt as stated in some other document, it comes out to a per capita gross debt of \$3,500 per capita. Now it's just a case of simply saying which debt are you using and had that been said at the time, there would have been no argument but the government of the day did not choose to do that. They kept insisting that our net debt which was some factor perhaps one-tenth of the gross debt. It's all a matter of semantics. There are a number of ways of stating debt but if you gross up all the debt of the province in the money it owes, Schedule A, Schedule B, Self-sustaining, Non Self-sustaining, Guarantees to whomever it may be by the government, undertakings by the government, add it all up, it comes to the figure as stated by a responsible Crown corporation in going into the markets of the world to look for loan capital.

Now I assume that it's not irresponsible procedure to do that otherwise those people wouldn't be asking for that sort of information but I think Mr. Cherniack knows very well that that is included, it's a must when you go into the markets where you go to look for loan capital to state the grossed up total debt of the province whether it's self-sustaining, non self-sustaining, whatever the form may be and that is the one form, the other form was the form that he chose to use or his government chose to use or to emphasize, whoever the government may be, simply says, the bottom line is that there are different ways of expressing debt.

Now on the other question of how do you put a value on the assets we expect to make changes in that too. All these things are arbitrary and it's a question of now trying to reduce if possible the arbitrariness of how you do it. This building for instance has no debt on it and shows in the books as having zero value as an asset. You may have another newer building that has a particular mortgage attached to it that the government has assumed that shows a value. You may find a section of highway that has fallen under capital rather than current,

therefore has a debt attached to it whereas one that fell under current doesn't have a debt attached to it. The thing has been very arbitrary, the attempt is going to be to remove that arbitrariness and to lump it all together and to not use that sort of an arbitrary differential. So I think that this essentially was what the Auditor has been saying in that regard too, and we intend to make some changes in that connection.

But to reiterate it's not a question of somebody being irresponsible in stating debt, it's a question of defining clearly what kind of a debt you are talking about and in the last year there has been two specific kinds of debt, a public debt as indicated in one location in this book, the public grossed up total debt as indicated in the prospectus that's used when you go to borrow money.

MR. CHERNIACK: I do appreciate the Minister's elucidation and clearly he and I are in agreement on the arithmetic and the words that are used. What I call irresponsible is leaving an impression that the gross public debt is a burden of its entirety without reducing from it the assets that one has such as buildings that are paid for, such as reserves, sinking funds which are cash themselves and therefore I would have to ask Mr. Craik whether in making presentations to prospective lenders to the province whether he is doing more than just saying the gross public debt is \$3.4 billion, therefore every man, woman and child in the province is burdened with \$3,400 average or whether he is at the same time indicating, as the Hydro prospectus no doubt does, that there are assets as against this gross debt which must be taken into account. That's one question.

Is he using his former leader and his present Premier's method of telling the lenders of the province what the debt of the province is as a burden on the taxpayer or is he being more responsible, and I use that word advisedly, by giving all the information rather than just part of it. That's one thing.

The other point he raised, he said that in the presentation of assets the present government is reviewing methods of showing the assets in a different way. Is he prepared to make the Public Accounts Committee the vehicle whereby this method of presentation can be discussed and developed so that it will be a presentation in which we all have an input, or is that to be internal?

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, to go back to the first comment, the question as to whether or not it's a burden depends on how you define "burden", the size of the debt. Mr. Cherniack is suggesting that the size of the assets that you have to back up the level of the debt is going to be an important feature. Mr. Cherniack may well know that, perhaps better than I do, that when you're negotiating for instance for loans and the interest rates on loans to apply to Manitoba Hydro that the ability to pay off the debt that you're going to incur is the most important factor that is going to be looked at. And the size of the per capita debt is important to people when they're looking at your credit rating and finally the interest rate you're going to have to have to pay on your borrowings.

MR. CHERNIACK: Of the utilities?

MR. CRAIK: Well, the ability to pay is the important yardstick that is used by those that are lending. This building, for instance, may be an exceedingly valuable building, but it's hardly a saleable commodity.

MR. CHERNIACK: No, I'm talking of utilities.

MR. CRAIK: But when you're backing up and guaranteeing the borrowing of the utilities, which the province does in all cases, then the really important feature is the ability of the utility and principally the ability of the province to pay off its debt.

Now at \$3,500 per capita debt we're the second highest gross debt in Canada next to Newfoundland, and when you start exceeding that regardless of your getting up into that figure it's very easy for someone to look at your financial position and say, "Fine, you have assets, but you now have a gross per capita debt that is the highest in Canada. What is your ability to pay? What is the viability of the utility that you're borrowing for?" When you talk about burden, and you find that some two-thirds of the total provincial debt is wrapped up in that utility, then you have to look at what is the market potential for the product you are trying to produce, and then you find yourself edging towards the position where you are no longer really competitive in your power rates and then they can look at, well what really is even your export potential for the product you are trying to produce, then assets paid or unpaid in your asset column as far as your province is concerned doesn't enter the picture nearly as much as the question, what is your ability to pay going to be? Where are your power rates going? What's going to happen to your markets, your domestic markets, your industrial internal markets and your export markets, if the burden you are going to impose

on the province and particularly on the utility which, by the legislation, has to pay those interest charges, what's its ability going to be to pay back this bond over the next period of time that you have to amortize it?

That's why it's not improper or irresponsible to state the gross debt. Now if you want to state the net debt as well, that's fine. But in actual fact the gross debt, particularly when you come to the borrowing, is extremely important just as it's extremely important for Canada, at this particular time, to look very seriously at what happens when you get up to 14 percent of your yearly cash flow being required to pay debt. The province is in the same boat. The assets take second place in the total picture. It's a question of what you're doing to your current account by stacking up these increasingly high debts, even if they're supposedly self-sustaining such as Hydro is.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, may I then ask the Minister whether this description he's giving us is reflected in his most recent borrowing which I believe was in Japan for — was it for Hydro? Well, was that a problem then? As I understood it there was a report that this is the lowest interest rate ever paid in Japan. Now was this dismal picture presented to the Japanese people when they were lending the money?

MR. CRAIK: Well, first of all, I'm not attempting to . . . I take some umbrage if you're suggesting that I'm trying to paint a dismal picture. I'm trying to paint a realistic picture as to what you have to watch for in terms of stating debt because you have to watch for what the other party is looking for. The other party is obviously looking for growth debt and that's why Hydro puts gross debt in its submission when you go to New York.

MR. CHERNIACK: But when the Minister negotiated in Japan surely gross debt was not the only thing. Surely the ability to pay for Hydro to provide payment in its budget for the borrowing was important as well as all of it affecting the potential earning capacity of Hydro based on its capital program. Surely that was used as well as just a bald statement of gross debt such as Mr. Lyon has been known to use.

MR. CRAIK: The important features in the Japanese issue, which really isn't probably directly relevant to what we're looking at right here, but nevertheless is critical as far as the province is concerned, was No. 1, Canada's position with regard to its natural resources are very attractive to the Japanese, period, whether it's Manitoba or whether it's Alberta oil sands where they are becoming involved, or whether it's other natural-resource areas, it's looked upon with great envy which Mr. Cherniack knows very well himself, which makes a very strong negotiating position for Canada's future ability with regard to borrowing.

The other reason is that when Mr. Cherniack was in the position of going to Japan to borrow, that the Japanese are extremely responsible people and recognized that on the previous loan that perhaps Manitoba pay just slightly more than they should have paid, and that there was some moral obligation on the part of the Japanese government to recognize that they had to pay particular attention in terms of to a province or a nation and a nation dealing together, that in fact the former government did not necessarily have to go through with the previous loan, had probably paid a little more than market value since the market dropped several days after you negotiated the loan, and we as a result may — and if you average out the two — may not have gotten a particularly good interest rate but on the second one we did get a good interest rate, and I think they took it into account and we certainly used the argument to advantage in getting an extra point from them in the negotiations.

MR. CHERNIACK: So the gross debt then was not the big feature as far as the Japanese loan was concerned.

MR. CRAIK: Well, I expect that the gross debt probably would have been dealt with on the previous issue. I don't recall it being brought up in my particular discussions with them. Our economy and the strength of our economy was certainly discussed, the gross debt being part of the total picture. What is your ability to pay? How do you feel about your ability to pay back the loan?

MR. CHERNIACK: So gross debt itself was not a factor in the negotiation, in itself.

MR. CRAIK: I can't say it wasn't a factor, but it isn't singled out as the overriding factor.

MR. CHERNIACK: All right.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, my question actually flips over to the next page. It's still under Advances and Other Receivables, so maybe I'll wait in case there's other questions relating to Page 4.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: Maybe my comments are untimely to get into the discussion on gross debt, etc., etc. But I think the gross debt at \$3,500 or whatever the figure may be per individual in Manitoba, has to be an important one to each individual in Manitoba because it represents a level of debt-servicing that they, as a taxpayer at some point in time whether it's through hydro bills, through personal income tax, corporation capital tax, has to be recovered within the total government taxation in billing, in revenue system. And whether or not the gross public debt is more than offset by paid-for assets I think is a dangerous situation that businesses can get into and I think, to some extent, maybe governments can get into.

For instance if Manitoba Hydro — and we'll use that as the example since it's been discussed — if it has considerable assets which there is very little debt against them but in the process of maintaining those assets, paying staff, etc., the utility is self-sustaining as far as revenues go, then any borrowings to increase the capacity of hydro through the installation of another dam, or whatever, has to be viewed on the merit of what the incremental benefit of that particular power project is. And I think the only reason why — and I speak here as a layman and without full knowledge of the process — but I think that when the Manitoba Hydro receives fundings from borrowings it's not strictly Manitoba Hydro's assets per se which back up that particular borrowing, it's the total asset of the province, the mineral resources, the province itself which provides the asset to back up that particular liability. And that's a danger that, for instance — and I'll get very commonplace on consideration of balance sheets, I'll get to a business — if you take a — and let's just use a farm because I'm familiar with them — if you take a farm whose balance sheet shows land at \$500 an acre, there can be a tremendous asset there. And you can go out and on the basis of that asset go to any banker and borrow on a section of land \$100,000 because you have the recoverable asset, but by borrowing that \$100,000 to put it into machinery which may or may not be needed within the operation of that farm you can often put your farm beyond the potential to repay that particular borrowing even though the asset is there.

So what you run into is a situation where you are financially stable on the balance sheet but financially very unstable as far as meeting your current commitments go, and I think that is where the gross debt picture has to be explained to the taxpayers in Manitoba because it represents a servicing of debt that has to come from some level of revenue collection within the province, hence each individual in this province, and today, tomorrow and for years to come is going to be paying that irregardless of what the asset base is backing it up, it represents an interest that has to be paid and a capital retirement that has to be paid by the citizens. So it's important to them to know what the level is.

MR. CHERNIACK: Mr. Chairman, may I just conclude my part in this. I think Mr. Orchard and Mr. Craik have both helped us come to a realization that ability to repay the debt is of a greater factor than gross debt itself, in that gross debt is only part of the whole picture and the ability to repay it is a very large factor. I just point out that I wonder about that having come to that conclusion to reflect on the fact that in just a few months the Government of Manitoba has given up substantial revenues based on the ability-to-pay principle having given them up and at the same time is apparently taxing gasoline users two cents a gallon in a form of compensation. When one shows ability to pay one also has to show the desire to tax for the money with which to repay and that is something we will be discussing in the future, I would think.

MR. CHAIRMAN: Mr. Einarson.

MR. EINARSON: Mr. Chairman, I just wanted to pose a question to Mr. Ziprick when we are talking about our capital debt per se and we have some idea, for instance in Manitoba Hydro, of the bills that each customer pays every month, what portion of those numbers of dollars they pay is interest? We have a pretty good idea it is roughly 50 percent. Could Mr. Ziprick tell us, of the total debt what is the interest charges on each dollar, say whether it is 5 percent, 10 percent? Is that possible to get that information? Do you have that at the top of your head, Mr. Ziprick?

MR. ZIPRICK: No, I don't have it off the top of my head and I don't know if anybody has. To average it out, the Public Accounts at the back have a schedule showing all the various

issues that are outstanding and the rates of interest applicable to those issues. Of course, the foreign issues are also subject to foreign exchange so it could fluctuate each year. But I don't know just exactly what it would come to on the average if you averaged it out for the total.

MR. EINARSON: So what you are saying then, Mr. Ziprick, is it could vary and it is pretty hard to put a definite figure on it.

MR. ZIPRICK: After the end of the year you could . . . Well, we know what the total expenditure was for interest and various other expenses for debt in the province and that debt applicable to the province, you could average it on that. Now, we don't consolidate the utility positions so that we have an overall position anywhere to my knowledge but it could be done. I don't know just the precision as to how useful it would be to have that kind of precision but just a brief scanning it would be somewhere around eight percent or something like that, that's what it would average.

MR. EINARSON: Thank you.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Mr. Chairman, on the question of utilities, I'm thinking perhaps of an analogy, would be to look at Ontario which doesn't have its own telephone system — Bell Telephone is the authority that operates telephones there — it is an essential product, it's one that they have a monopoly on. Their balance sheet, their prospectus when they go out on the market, when they are judged as to what they should pay in the way of interest rates and whether they are viable or not, it really depends upon how essential that service is. And it is known by any investor that telephones will have to continue and that the rates will have to reflect that and the Bell Telephone has gone to the Utility Board in Ontario a number of times in the last 18 months and has been receiving rate increases proving that they have to expand as the demand increases and that the higher interest rates that they have to borrow at this time have to be repaid and they are guaranteed a return to their investment.

In the case of Manitoba it happens to be publicly owned and the fact that Manitoba has the lowest telephone rate in Canada if not in North America simply reflects that in Manitoba, because it is publicly owned, they cannot make a profit. They can simply charge enough to cover their costs and perhaps ongoing for three or four years to prevent constant rate increases.

When you talk in terms of a debt or the ability on the open market to sell one's debentures it's the ability to pay. It's the fact that in the case of hydro and the case of telephone you have two absolutely essential services which the public must pay for, the user must pay for. In the case of hydro much of the users and much of the money to retire the debt and to retire the capital costs is not just paid by Manitobans but it is converted into exportable products. So, as I recall, about 30 percent of the monies flowing into Hydro are as a result of the manufacturer of goods which leave the province; in the case of let's say the mining industry which uses a great amount of electricity but the price that they then sell to outside the province when they ship it out of the province includes the cost of their power consumption and they are large as I say energy users.

So in the final analysis it is the value added which determines the viability of it but in addition to that, when governments — and I know they do this — because they are not a private business they don't show an asset per se. The Norquay Building — I don't know, I am just guessing — probably is paid for by now. On the other hand I don't doubt that if the Norquay Building was put up for sale tomorrow without a reserve bid you'll get a buyer. And if you don't put it on reserve bid I'll be the first to bid on it and then I will gladly rent the offices back to government and make money on it because I am entitled to not only get back my capital investment but also a return on my investment, an interest rate on my investment.

So there is an asset there and yet governments do choose and I know it is quite normal to show no assets at all insofar as all the public buildings, the bridges, etc., that have been built. In other words they have no value and yet if somebody were to sell me a major provincial bridge in the province and allow me to put up a toll charge on it I will make money on it because people have to cross it.

So I am wondering whether in fact this concept that it has no value, it's an asset with a nil value on it — it may be proper accounting from the government's point of view but if you try to relate it to the private sector then I think it is like comparing apples and oranges. And when we hear all the talk about how it's got to be run in a businesslike way then either you run it totally in a businesslike way and say that Hydro is for sale and we will sell it for its book value — you'll get buyers, you'll get them tomorrow because they'll make a lot of money on it, Mr. Ziprick, won't they? Because if you put it on the book value of Hydro today you'll have bids within 48 hours and they'll make a lot of money on it because the value of Hydro is far more than the book value of today. The essential nature of hydro is such that they will get whatever

Public Accounts
Tuesday, February 28, 1978

rate they determine if it's in private hands because you can't do without hydro, you can't have brownouts, you can't have lack of power. So what I am saying to you is that the value, the asset that Manitoba citizens have acquired over the years is meaningful to the private investor and he will show it differently in his books for tax purposes. Governments choose not to do that. But to try to mix the two together and say that you have to use a businesslike approach on the one hand and then to ignore the businesslike approach on the other is, I think, confusing the issue and really is comparing apples and oranges.

MR. CHAIRMAN: Mr. Blake, on a point of order.

MR. BLAKE: Mr. Chairman, on a point of order, I'm just wondering if we're not getting off onto some philosophical arguments on both sides here and maybe not serving the best interests of the committee in going through the Auditor's Report and on into Public Accounts which we've heard this morning. We haven't finished for some time and if we continue in this vein I don't think that we are going to finish again for many many days. I realize some of my colleagues are on the list but I just wonder if we might proceed with a little more dispatch in getting through the Auditor's Report or we may never finish again this year.

MR. CHAIRMAN: Perhaps Mr. Minaker will bring us back to page three. Mr. Minaker.

MR. MINAKER: Not necessarily, Mr. Chairman. I Wouldn't mind making a couple of brief comments and questions relating to the topics that took place with Mr. Cherniack and Mr. Miller and I wonder, Mr. Chairman, if I might ask Mr. Ziprick — Mr. Cherniack indicated about a two-cent tax on gasoline that was supposedly imposed by our new government. I wonder, Mr. Ziprick, in your Auditor'S Report and your auditors when they reviewed the Public Accounts, is there a two-cent tax included in the gas revenues for the year ending 1977. A total of 17 cents of taxes.

MR. ZIPRICK: If you're referring to the tax that was imposed for insurance, that's not included as revenue in the Public Accounts; that was transferred directly over to the Manitoba Public Insurance Corporation and it's recorded in there. So it is not included as revenue.

MR. MINAKER: So it's a subsidy to Autopac.

MR. ZIPRICK: It was a levy, a levy for a specific purpose, a levy for Autopac purposes. And being a levy for Autopac purposes it was directed for that purpose. Now if it is changed it would be included somewhere else.

MR. MINAKER: Mr. Chairman, also I couldn't help but note Mr. Miller indicating about lowest telephone rates. I also might draw to his attention that prior to them becoming government I think we had one of the lowest hydro rates in Canada which is not the case at the present time.

MR. MILLER: It was the second lowest.

MR. MINAKER: I think we had the lowest. Mr. Chairman, through you to Mr. Ziprick. I would presume that you have had a chance to talk with other provincial auditors and I am sure you have reviewed different accounting procedures and the circumstances that occur. Have you ever run across, in your experience, any governments selling bridges or highways or government buildings such as this to private people?

MR. ZIPRICK: No, not buildings such as this but buildings are being sold.

MR. MINAKER: Examples of bridges and that being sold, have you ever run across this example?

MR. CHERNIACK: Well a boat is a bridge, in effect, between two shores.

MR. ZIPRICK: I think there is a point here that should be realized and the point that Mr. Miller said, that the Bell being privately owned and the same way with bridges. Now, if you want to transfer some risk on a particular building you could do that, dispose of the building and transfer the risk to a private entrepreneur. Now if that private entrepreneur is then carrying the risk there is an immediate control mechanism built in in that that debt can be removed by foreclosure on that without the province being involved. So it introduces another element of control to some degree. Now if the building is needed then the province could buy it. If that particular entrepreneur couldn't manage and was going bankrupt the province could then go an acquire it for the price that is going. So you could shake down a

liability through that kind of a system whereas if it's in part of the liability of the province there is no way you can shake down part of the liability. For instance hydro, there is no way that Hydro's liability could be reduced by a bankruptcy system because the province is guaranteeing it. On that basis the whole province is standing behind it. If the province wasn't guaranteeing it there is a possibility of reducing a non-viable liability through a bankruptcy procedure.

MR. MILLER: You're saying Bell Telephone could go broke, conceivably.

MR. ZIPRICK: That's right.

MR. MINAKER: Mr. Ziprick, you don't have to answer the question if you don't want to but I was just wondering . . . You indicated earlier with regard to listing assets when there is only monies owing on them . . . Do you feel that if we were to show a billion dollars of assets or two billion and our per capita debt was still around the 3,500, the gross per capita debt, do you think it would make any difference of how many more dollars we could borrow?

MR. ZIPRICK: No, there again like Hydro and just to comment on what Mr. Miller, the Hydro assets and the way the Hydro accounting system works is very comparable to a commercial enterprise. Their assets are recorded at cost and are being amortized as an expense to providing the service in the province.

This kind of amortization system would only be useful if the entire province's service was to be provided at cost and recovered on that basis, working over the period of each year as to what you pass on or don't pass on to future generations. That kind of accounting approach I don't think to my knowledge is being considered. I know here in the United States there has been even a mock-up balance sheet and financial statements have been created on the whole United States government. I have a copy of it. It's a pretty interesting document. But they're in the very early stages and in there they say, well, it's just a pro forma deal and they feel that it will require a lot of research and review as to the usefulness of that kind of approach and its cost and involvement and whatever have you. So, just what approach they will take I really don't know.

In Canada there has been a sort of a generally accepted approach that is being developed over the last number of years which is working on the net debt concept.

MR. MINAKER: So in essence it boils down to how much do you owe and how much are you able to pay on a time basis when you go out for money?

MR. ZIPRICK: Yes. Well of course the able-to-pay takes in the broader concept of the whole economy. It's how much you owe and how much your charges are and then let anybody evaluate for themselves taking the whole economy. There is nowhere in the Public Accounts or anywhere . . .

MR. MINAKER: Regardless of what we put in the assets.

MR. ZIPRICK: . . . that an attempt is being made as to how much can be sustained from the economy.

MR. CHAIRMAN: Mr. Wilson. Mr. Minaker.

MR. MINAKER: Well, if we've finished with Page 4, I've got a question on Page 5 if you want . . .

MR. CHAIRMAN: But we haven't finished Page 3 yet. Mr. Wilson.

MR. WILSON: Well, staying on the same Page 3, when the Member for Rock Lake wanted to know if Mr. Ziprick could tell us what the interest paid to financial institutions was, I don't believe he was able to answer us and I hoped that he would be able to come back to the committee with that answer because the Minister of Finance had indicated that there was about 14 cents from the federal point of view. I'm just saying if you look on Page 20 and on Page 114 and 115 of the grey book you will see where the Royal Bank of Canada enjoyed \$136 million overdraft and then when you get over here it says under the Minister of Finance budget, it says, Public Debt, a total of \$158 million, and I'm wondering with those alarming figures if we couldn't get some idea if Mr. Schreyer's group was probably the best friend that the financial institutions of Manitoba had, in that they enjoyed a bonanza in interest rates and overdraft rates under his administration. So I would be interested in what the cost of dollar borrowing would be so that I could attach the blame to the former government.

MR. MILLER: That's the purpose of the exercise.

MR. WILSON: That's right.

MR. CHAIRMAN: On Page 3 of the Auditor's Report, Mr. Cherniack.

MR. CHERNIACK: I have two questions, one to Mr. Ziprick. Mr. Minaker referred to a subsidy to Autopac. I want Mr. Ziprick to inform us whether during this year that's under review there's any evidence of any subsidy paid by government to Autopac?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: There is no money paid from the consolidated fund that was designated to be collected by the consolidated fund to Autopac.

MR. CHERNIACK: Thank you. A question to Mr. Craik. He did not answer my inquiry and I wonder if he would care to answer it, as to whether or not he would make this committee the vehicle by which he would be presenting any suggested changes to the balance sheet in reflecting the value of what people call capital assets.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I think what might be a good or maybe perhaps an acceptable procedure would be to look at perhaps dealing with the accounts now prior to Session, but hopefully being able to deal with these with some degree of dispatch and perhaps during the course of the legislative session the committee at that time could address itself to any changes in procedure rather than dealing with them at this time.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I just want to comment. By all means I didn't ask it be done now. I asked if it would be considered for the future and we could then consider it a matter for the agenda for future . . . —(Interjection)— Thank you.

MR. CRAIK: Some matters such as may or may not come to the committee, but I would think we will have to make some determination of what particular matters should come to the committee for review, and I would think that the best time to do that would be . . .

MR. CHERNIACK: Later on.

MR. CRAIK: . . . at some time after we've finished these accounts.

MR. CHERNIACK: By all means.

MR. CRAIK: Probably during the Session.

MR. CHAIRMAN: Are there any further questions on Page 3? Page 3—pass; Page 4. Mr. Minaker.

MR. MINAKER: No.

MR. CHAIRMAN: Page 4—pass; Page 5. Mr. Minaker.

MR. MINAKER: I wonder, Mr. Chairman, if the Auditor could expand or elaborate on with regard to the Manitoba Data Service Division's accumulated deficit of 1.9 million and his opinion that it's chargeable to the province appropriation and the province should have provided for it.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: The Manitoba Data Service is providing service for the province pretty well in its entirety and all the costs of providing that service is really a charge against the province.

In this instance the costs are being deferred, but there is no, for instance, any kind of a deferred charge that could be justified by way of programs or anything like that that will apply to the future. So this is just a cost of operating and a deficiency in the year's operating and in effect is a charge to the province.

Public Accounts
Tuesday, February 28, 1978

Now the rate structure that has been set up has not picked this up. The rate structure is being adjusted so presumably it will be picked up in the future and when it does get picked up then it will be taken care of. But we view that this should be considered as an additional charge to the province for this particular year.

MR. MINAKER: So, Mr. Chairman, then in the Estimates if I remember correctly, the different departments had charges or expenditures for their computer services and so forth and I presume that that expenditure showed up as a revenue for or transfer to the Manitoba Data Service. Is this correct?

MR. ZIPRICK: That's correct.

MR. MINAKER: So that in actual fact the appropriate rates being charged at that time were not adequate to cover the operation of the facility?

MR. ZIPRICK: That's right.

MR. MINAKER: Strictly on expenditure, not on capital?

MR. ZIPRICK: That's right. The capital has been taken care of . . . basically paid off. Now I think that there is some capitalization but it is relatively nominal.

MR. MINAKER: And at the year end there was this deficit of 1.9 million.

MR. ZIPRICK: That's right.

MR. MINAKER: What was the total revenue for the operation of Data Service for that year?

MR. ZIPRICK: I don't know. I would have to refer to the financial statements of . . .

MR. MINAKER: Because I sort of looked through there and I couldn't really find it in the Public Accounts with any ease.

MR. ZIPRICK: No, no, it is not in the Public Accounts now. It is a division under Telephones that is shown separately. There is a separate financial statement for it that would show the total revenue and the total expenditures with this figure as a deficit.

MR. MINAKER: Would it have been a very noticeable amount? I mean, would it represent 20, 25 percent or 50 percent of their actual operating . . . ?

MR. ZIPRICK: No, it is not a very large amount. The small percentage in rate increase would have taken care of that 1.9 million.

MR. MINAKER: Which would have reflected in

MR. ZIPRICK: Yes, a small increase in the rate for that year would have picked up this 1.9 million and then the province's expenditures would have been 1.9 million higher and they would have been at a break-even position.

MR. MINAKER: So this ends up being absorbed within the Telephones at the present time or is it being carried by them?

MR. ZIPRICK: Well, it is being carried by them through an advance system. Actually the province has advanced them money and they are shown as advances receivable from the Telephones to carry this deficit.

MR. MINAKER: Is there any other Crown Corporations that provide this type of service that would maybe have a similar deficit somewhere?

MR. ZIPRICK: No, or otherwise we would point it out.

MR. MINAKER: Of course that again is not under your responsibility. I'm thinking of the air service which had done work for Saunders Aircraft' I think for the government testing. Where would that show up?

MR. ZIPRICK: Well, the air service is not a separate division like this data service is, it's a separate accounting division. It would defer this kind of an expenditure through advances.

MR. MINAKER: It would show up as a bad debt then, would it, for the . . . ?

MR. ZIPRICK: Well, no. It's just part of an appropriation, so whatever it was deficient is just picked up in the appropriation and there would be nothing deferred. In other words, if it was a Crown Corporation it had a deficit of let's say \$2 million and the province made an advance, not a charge to the appropriation but an advance of \$2 million, then they would have \$2 million payable to the province and \$2 million deficit which would have to be picked up in subsequent years.

MR. MINAKER: Well the particular instance I referred to was I think there was about \$150,000 that Saunders owed, I don't know whether it was Industry and Commerce or Northern Affairs to the transport. Do you know if that was ever paid?

MR. ZIPRICK: I don't know. If it hasn't been paid it is not carried as a receivable. So if we do get that amount it will be just as additional revenue. To my knowledge it is not being carried as a receivable by the province from Saunders. So any realization from there would be recorded in the next year Sundry Revenue.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: Mr. Chairman, my question is to Mr. Ziprick regarding capital division investments, on Page 5. The balance sheet indicates some \$228 million in assets basis capital division investments. In particular I am interested in a couple of them, I suppose the largest one being the Manitoba Development Corporation common shares which are a total of 500,000 common shares at a par value of \$100.00 for a total of \$50 million investment.

Since it shows up in the province's balance sheet as an asset is there any potential to establish a market value for those 500,000 common shares in MDC to see whether our investment is a valid one?

MR. ZIPRICK: Well you'd have to assess it on the basis of the MDC's balance sheet. But I think that by and large most of this \$50 million is just like the other asset that we were talking about, just an offset to debt being raised by the province because that was the main reason of financing it on that equity basis is that they could not sustain it.

MR. ORCHARD: Then further this might fall in, and I'll have to go back to get the proper terminology. This \$50 million may in fact be much akin to a conditional grant which at some time may have to be written off by the province because there is no asset base to back up that \$50 million investment?

MR. ZIPRICK: That's right.

MR. ORCHARD: Or no recoverable funds within that \$50 million . . .

MR. ZIPRICK: That's right, it is exactly the same kind of an asset.

MR. ORCHARD: And if at that point in time we continue with the same type of balance sheet then our asset section would decrease by a figure something of \$50 million and we would be short that much asset?

MR. ZIPRICK: That's right.

MR. ORCHARD: Now further if we follow down. In Leaf Rapids Development Corporation Limited does a similar situation exist there with a \$9.3 million book value in the province's investment?

Is there recoverable assets in Leaf Rapids Development Corporation to that extent?

MR. ZIPRICK: Most of Leaf Rapids is recoverable or probably all of it. There is some income debenture but it's being paid off through the usage of the complex so I would say that most if not all of Leaf Rapids will be recoverable.

MR. ORCHARD: And similarly the two latter ones, the Channel Area Loggers, Moose Lake Loggers, they're a much smaller investment, basically recoverable?

MR. ZIPRICK: No, we don't consider those as recoverable.

MR. ORCHARD: Thank you.

MR. CHAIRMAN: Any further questions on Page 5? Page 5—passed. Page 6—Mr. Minaker.

MR. MINAKER: Mr. Chairman, I wonder if I could ask Mr. Ziprick, under Leaf Rapids Development Corporation where it was reduced by \$2.5 million by transfer facilities to the Leaf Rapids School District — or actually it was \$2.4 million — what facilities were transferred and could you maybe elaborate on that particular book entry?

MR. ZIPRICK: School buildings were actually transferred to the school district to be paid for in the same way as other school buildings are being paid for. So it will be paid for through grants being made.

MR. CHAIRMAN: Mr. Orchard. Mr. Miller.

MR. MILLER: On this Leaf Rapids schools, that took place when the school district was created.

MR. ZIPRICK: Yes.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: My question, Mr. Chairman, is the last paragraph on Page 6 under Special Reserve for Retirement of Debt. I'm a little at a loss here. It seems as if there was an indication that a system of accounting is being inappropriate for provincial government operations. I haven't been in on Public Accounts in previous sessions and I would like a little clarification on what exactly is inappropriate.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: It goes back to the fund accounting and the way it's done in the municipal system and this has been carried over in the province. It has validity in the municipal system where it's strictly observed and cash is not mixed. In other words if you raise cash for a specific building the cash is retained for that purpose and used for that purpose. In the province here the money is raised and then is being spent for whatever purpose as it is needed. Some of it is raised for this particular purpose but if there's an excess it's spent for another purpose so you're departing from a strict fund accounting system. Now I see nothing wrong with departing from a strict fund accounting system in the province because to stay strictly within the fund accounting and to maintain these kind of cash balances would just increase your net interest costs because the bank would pay you interest on your balance that you have for a particular fund but it would generally be lower than the interest you would have to pay somewhere else. So I'm completely in agreement with not staying within the fund accounting but then if you're not staying within the fund accounting then the whole system sort of breaks down and it should be departed from and the overall accounting system that whatever cash you have you use it for whatever purpose you need and that's it. Now if you don't have the cash then you don't create a cash position on the books by increasing a bank overdraft and creating a cash position in that way and that's the concern that we have. We completely agree that fund accounting in a provincial setup is not appropriate within the present context and we're saying it should be done away with.

MR. CHAIRMAN: Mr. Orchard.

MR. ORCHARD: Further then, the last line says, "There was a substantial bank overdraft and this transfer only increases the book bank overdraft resulting in an overstatement of the assets and liabilities. It is recommended this overstatement be corrected." Now would you have an estimate of the size of that overstatement in assets and liabilities?

MR. ZIPRICK: By \$17.1 million.

MR. ORCHARD: Just by the \$17.1. Okay.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, how would Mr. Ziprick make this change to make it appropriate rather than inappropriate? There's \$38 million in assets. Would he add that to the sinking funds or would he subtract that from a liability?

MR. ZIPRICK: Well that's the point that I was making, there was no \$38 million in assets because the money had been spent long ago.

MR. CHERNIACK: What would you do to make this appropriate?

MR. ZIPRICK: I'd just reduce the bank overdraft and kill the reserve. I wouldn't create a reserve through increasing debt.

MR. CHERNIACK: So you would reduce the liability by \$38 million eliminating the asset and \$38 million of liability. Is that what you would do?

MR. ZIPRICK: Well the \$20 million pertaining to Hydro is really equivalent to advances to Hydro except that this item is supported by debentures where the other advances aren't. But in effect it was \$20 million that was given to Hydro and Hydro supplied debentures and these debentures are sitting as a debt of Hydro. So in effect that \$20 million, to make it comparable with others, would be to move it into "Advances to Hydro."

MR. CHERNIACK: I see. Would that be shown as an asset or reduction of liability?

MR. ZIPRICK: That \$20 million would be shown as an asset in "Advance to Hydro."

MR. CHERNIACK: Under which item?

MR. ZIPRICK: Under "Advances to Utilities."

MR. CHERNIACK: Where do you have that?

MR. ZIPRICK: On the balance sheet we've just finished dealing with Advances and Other Receivables and Manitoba Hydro has \$497 million.

MR. CHERNIACK: So you would move \$20 million up to Advances and you would reduce Liabilities by \$38 million.

MR. ZIPRICK: By \$17 million.

MR. CHERNIACK: By \$17 million. These book entries would satisfy what you call inappropriate.

MR. ZIPRICK: That's right.

MR. CHAIRMAN: Any further questions on Page 6? Page 6—passed. Page 7 - Mr. Cherniack.

MR. CHERNIACK: By the same token do I understand that Mr. Ziprick is recommending that the sinking funds, which I think total close to 139, that that should be deducted from public debt.

MR. ZIPRICK: Yes.

MR. CHERNIACK: And if that were done then that would reduce the gross public debt wouldn't it.

MR. ZIPRICK: That's right.

MR. CHERNIACK: And yet it's a bookkeeping entry.

MR. ZIPRICK: No, showing the public debt as debt of sinking fund is quite an acceptable practice and particularly in this situation. In effect most of the sinking fund paper that's an asset is the Province of Manitoba paper so you've got a piece of paper up here that says "I owe" and a piece of paper here below says "I've got an asset." In effect you haven't got anything, either debt or asset.

MR. CHERNIACK: That would prevent irresponsible people from using a gross debt figure as a false reflection of the liabilities of the citizens.

MR. ZIPRICK: I won't get involved into that argument but I have made this statement for a number of years, that the public debt is net of sinking funds.

MR. CHERNIACK: Mr. Chairman, may I ask Mr. Ziprick or Mr. Craik whether his advice is being taken by the Government of Manitoba in the reflection of the statement.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: The answer, Mr. Chairman, is yes and the answer to the other thing, the question regarding whether the irresponsible statement may apply to the irresponsible statement of net debt as well made by the former government.

MR. CHERNIACK: No it wouldn't because net is . . .

MR. CRAIK: If it applies to what Mr. Cherniack thinks is the irresponsible statement of gross debt, it reduces it from \$3,500 per capita to \$3,370.00.

MR. CHERNIACK: Nonsense. Your arithmetic is cockeyed.

MR. CRAIK: There is still a million people in Manitoba.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Mr. Chairman, further to Mr. Ziprick. Isn't it a fact though that the bond buyers pretty well dictate the terms when they make their loan and don't they insist on sinking funds or a type of repurchase fund that should always be made available because it supports a secondary market, it makes it possible for the province to buy their own securities when they come on the market, it makes Manitoba bonds more attractive. Isn't that an important factor rather than just straight bookkeeping balance and how it looks?

MR. ZIPRICK: Well as far as I understand the whole premise of the sinking fund here is to sort of make money available and the money is only made available by borrowing some more. So the whole premise is to borrow in addition to what you need to borrow to clean up small issues off the market. The point that I raise here is — and I'm no expert in the investment and the borrowing area but on a straight logic basis the question arises, the amount that we gain in the reduction of interest by having a provision to tidy up the market and then the raising of somewhere in the neighbourhood of \$50 million a year to replenish the sinking fund, and the cost to raise \$50 million would be anywhere from one-half to one percent just to place it on the market, is to whether we're getting sufficient advantage to do that. Now as I see it we can still legally meet the requirements. All we would have to do is issue our own piece of paper, not go through the market, and put our own piece of paper into the sinking fund and we'd have the same thing.

The other thing that concerns me is purchasing these province securities off the market. What price is being paid for them and then if there is some benefit, who is entitled to sell. Normally if there is early redemptions it's by some lot drawing or what-have-you. Here I'm not sure as to what kind of an approach is used to determine early redemption. So I'm just raising it as an issue, not as an expert but as an auditor that may have some involvement and I have some concerns.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Mr. Chairman, again to Mr. Ziprick. I recognize your last statement where you say you raise it as an auditor not as an expert in the field. Have you discussed with the Department of Finance whether in fact the procedures that have been followed and followed for years, having a sinking fund, the requirement to have funds available, whether that in fact isn't financially more beneficial to the province in the long run than to simply not have the sinking fund and simply, as you say, save in that regard. What I'm getting at is, have you discussed with the Department of Finance which is the most beneficial way in the long run over the long haul.

MR. ZIPRICK: Yes, I have been discussing this issue with the Department for several years.

MR. MILLER: Is there a difference of opinion?

MR. ZIPRICK: The consensus that I'm getting is that it is beneficial but there is no documentation essentially to indicate that. Now as far as I'm concerned all I was interested in was to get some documentation. Once I have some documentation that the Legislature and you people are satisfied I'll drop the issue and won't bring it up any more.

MR. MILLER: So basically it's your opinion, not being the expert in the field of investment in the foreign market versus the people who are expert in that field in the Department of Finance, there's a difference of opinion there.

MR. ZIPRICK: Well it's not even my opinion. I just have some concerns that I would like a statement and then if there was written documentation in the statement that I could refer to I probably wouldn't have made the observation.

MR. MILLER: So you've flown a balloon and are looking for an answer.

MR. ZIPRICK: That's right.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I'm concerned about what has just been discussed because I thought that Mr. Ziprick was only talking about presentation and that he would have wanted to see, I assume, on the liability side of the balance sheet the debts and then under that a statement saying: Less sinking fund, net so much. I thought that's what he was talking about but if he is now challenging the feasibility of actual transactions that take place in the Department of Finance as to the establishment and maintenance of a sinking fund then I think that what he is saying is basic and frankly — and I have to tell that to Mr. Ziprick to his face — I cannot accept the fact that he raises a point admitting that he is not expert in the field and contrary to the opinion of people who are considered to be experts and then wants documentation about something which is a market problem and which I think that brokers in the secondary market are more competent to deal with than he is, whether I shouldn't request the Minister of Finance to look into this question and establish to his own mind what is the correct way. I think that possibly if the Auditor is not satisfied with the opinions expressed by the Department of Finance experts then maybe this committee which represents the Legislature should look into it and inform the Auditor about his concerns. Frankly, it is my impression it is very difficult to document the basis for an interest rate except to say that people with some experience will know that part of the interest rate established on the lending of monies to a province is not only the acceptance by the market of the original issue but the continuing after market and secondary market rate at which the bonds are sold.

I believe that the province has been following a good procedure but if it hasn't I think it is more a matter for the Minister of Finance to satisfy himself by consulting the experts than to have a continuing debate about this balloon as Mr. Miller referred to and Mr. Ziprick agreed was a proper definition of this point he raises. I think it ought to be settled and I am kind of disappointed it hasn't been settled up to now but maybe Mr. Craik could look into this and inform the committee in due course what his position is on this.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, Mr. Ziprick has indicated he has been talking with the Department of Finance people for some time, perhaps years, and perhaps Mr. Cherniack and Mr. Miller, nor myself, may not have been party to the discussions but I will assure Mr. Cherniack that we won't sink the fund right away and that we'll continue to talk about the sinking fund without sinking it.

MR. CHERNIACK: I would appreciate if it were dealt with and if the committee could be informed of Mr. Craik's position.

MR. CRAIK: I realize there are two different topics, the one topic, whether the entry form of it is quite different from the second topic which is the existence at all of the mechanism.

MR. CHERNIACK: Much more basic. Presentation is one thing but this is more basic. Yes, Mr. Craik is right.

MR. MILLER: Mr. Chairman, the presentation is not what Mr. Ziprick is getting at here. Mr. Ziprick is really suggesting that we move away from having reserve funds to buttress the secondary market and all of these other factors which have to do with the marketplace and that's not presentation, that's the guts of borrowing money. It may be a small percentage but over many years, as I am sure the Department of Finance can indicate, that makes a difference between the acceptability of Manitoba bonds at a certain interest rate and just acceptability of the bonds themselves because that's a requirement that as a matter of fact the lenders in the past have demanded and they're not demanding it just for the sake of demanding it. All the brokerage firms recognize the value of this and feel that it makes it possible to sell debentures which otherwise you would have to sell but perhaps at a slight premium but that premium compounded over years costs millions.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Actually I have raised two distinct points. One is the presentation and I think that Mr. Craik has answered that they agree with the presentation, that the sinking fund should be netted off the debt. The other, I raise a concern — I'm not saying it should be done away with — but I raise a concern about the review because it's a financial matter and people have every right to place some responsibility on me to make some assessments. I have tried to make assessments and I honestly can't and so I make the observation that it should warrant a review, or if it doesn't warrant a review but the powers that be are completely satisfied at this point, if there is that assurance, I will accept it. But I know other jurisdictions don't necessarily do that or don't do it to the same extents. I believe Ontario does not provide sinking funds for all, they just provide sinking funds for some and only to a limited degree. In this case I am just concerned — for instance if I have a Province of Manitoba debenture and I can't market it, have I right to come to the Department of Finance and say "I've got a Province of Manitoba debenture, you buy it because you have been doing it for others and why don't you do it for me?" Or is it just for the convenience of certain types of brokers or what is the situation? I really don't know.

MR. CRAIK: Mr. Chairman, perhaps to bring it to a head, I understand that it is based not on regulation or practice, it is based on legislation and if there were any change it would require a change in the Act of the Legislature.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: The Auditor answered some of my concerns and of course I was sitting here as a small businessman looking across at two former finance ministers, one that had resigned, of course, and the Executive Council member over there, and I couldn't help but feel when Mr. Miller said they went out buying their own stock and went out buying their own bonds, it seemed to me to be an absolute waste of brokerage fees that we would engage in this practice and I am very pleased that the Auditor has said at the convenience of certain types of brokers or something. He is alluding that he doesn't buy the system of buying your own issues. I remember Mr. Miller standing up and sort of looking for some applause that an issue had been sold out and I wondered how many of those issues that the government had bought from itself.

10-07 What I am saying is that I am asking the question to Mr. Ziprick . . .

MR. MILLER: I said what?

MR. WILSON: Well you stood up in the House and said that you had sold out a particular issue and a few moments ago you mentioned that the government has been buying some of their own bonds.

A MEMBER: After, after.

MR. CHERNIACK: You have to understand what you're talking about.

MR. WILSON: Well this is why I say it is very interesting for a small businessman to sit across from all these former finance ministers and have the Auditor explain to me why he feels that we should be going out and buying our own particular stock and our own bond issues. Would there be, Mr. Ziprick, any fees paid to brokerage firms for this exercise?

MR. ZIPRICK: Oh yes, in these cases all these bonds that are being bought back have gone through the market and there would have been the normal fees of selling. —(Interjection)— Yes, selling the bonds, the bonds in the first instance. Then the purchase of the bonds, the fees are paid by the seller. So if I were to sell a bond to the Province of Manitoba they would pay me a certain amount and I would have to pay the broker for selling that bond.

MR. WILSON: The question then that I would have to ask is it seems to me what we're asking is the Finance Department to police themselves and I think I agree with Mr. Cherniack's leanings. He is saying that maybe we should be examining and maybe making recommendations because . . .

MR. CHERNIACK: I must be wrong if you agree with me.

MR. WILSON: Well, okay, I ask myself, looking at page nine, who was the — pardon the expression but who was the person in the Finance Department in their wisdom decided to borrow \$240 million in U.S. funds and now our dollar is only worth 90 cents?

MR. CHERNIACK: Roblin, it was Roblin.

Public Accounts
Tuesday, February 28, 1978

MR. WILSON: I can't envision the priorities of all the needs that I have in my particular community and when we get into finances we see literally thousands and thousands of dollars being poured away down the sink with these types of decisions and I can't see why we are making the brokerage firms rich and I can't see why we're repaying money in U.S. firm dollars when the dollar drops to 90 cents and 89 and maybe down to 86. Somebody made a mistake in saying that all the funds should be repayable in U.S. dollars. On this particular page alone, page nine, it means a loss to the taxpayers of Manitoba of about \$24.8 million so, I don't know.

MR. CHAIRMAN: Order please. I wonder if this would be a convenient time to break for lunch. We can come back to page seven at 2 o'clock. The committee will adjourn and stand adjourned until 2:00 p.m. this afternoon.