

Second Session - Fortieth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Reg Helwer
Constituency of Brandon West

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MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, May 8, 2013

TIME – 7 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Reg Helwer (Brandon West)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Gerrard, Struthers

Mr. Allum, Ms. Braun, Messrs. Cullen, Dewar, Mrs. Driedger, Messrs. Helwer, Jha, Marcelino, Pedersen

Substitutions:

Mr. Marcelino for Mr. Whitehead

APPEARING:

Ms. Carol Bellringer, Auditor General

WITNESSES:

Hon. Stan Struthers, Minister of Finance

Mr. John Clarkson, Deputy Minister of Finance

MATTERS UNDER CONSIDERATION:

Public Accounts for the fiscal year ending March 31, 2011 (Volumes 1, 2, 3 and 4)

Public Accounts for the fiscal year ending March 31, 2012 (Volumes 1, 2, 3 and 4)

Auditor General's Report–Annual Report to the Legislature, dated January 2013

Chapter 1–Accounts and Financial Statements: Section 10 Annual Report

* * *

Mr. Chairperson: Good evening. Will the Standing Committee on Public Accounts please come to order.

And prior to starting too far again, I will remind the committee that we have new microphones and they don't need to be moved. They don't need to be touched. They are very sensitive. And we want to make sure that the Hansard reporters still have their earphones—their ears—eardrums at the end of the

night, so—[interjection]—no tapping on them—that's very correct. So just be—well, it's a learning experience for all them. They are apparently in the appropriate place, so you don't need to move them closer in order to be heard, and we'll try not to play with them this evening. Thank you.

So this meeting has been called to consider the following reports: Public Accounts for fiscal years ending March 31st, 2011, and March 31st, 2012, Volumes 1, 2, 3 and 4; and the Auditor General's Report—Annual Report to the Legislature, dated January '13, Chapter 1—Accounts and Financial Statements: Section 10 Annual Report.

Are there any suggestions from the committee as to how long we should sit this evening and how we should consider the reports?

Mr. Blaine Pedersen (Midland): Mr. Chairman, I would suggest we go 'til 9 p.m., unless we run out of questions before then and then we reassess at 9 o'clock.

Mr. Chairperson: Is there agreement from the committee? [Agreed]

Thank you. And how should we consider the reports?

Mr. Pedersen: Globally.

Mr. Chairperson: Globally. Thank you. [interjection]

Thank you, Mr. Gerrard. Thank you for joining us. We have new microphones this evening, so you missed the introduction that they are very sensitive and they don't need to be moved or touched or interfered with at any time. And the light will not come on when your microphone is live, so the microphone is controlled by the Hansard reporters, but the light will not come on but it will be live.

All right. Does the Auditor General wish to make an opening statement?

Ms. Carol Bellringer (Auditor General): I'll start by introducing staff from the office of the Auditor General in attendance today. Tyson Shtykalo is the assistant auditor general responsible for our financial statement audits, and Bradley Keefe, the audit

principal responsible for the Public Accounts audit. And I always throw a plug in for him; he also just came third in the marathon last weekend, so congratulations to him.

The Auditor General Act requires us to report to the Assembly each year about the Public Accounts. This was included in our January 2013 annual report as chapter 1.

The government reported a \$999-million deficit for the 2012 fiscal year in the summary financial statements. We're pleased to report for 2011-12, we once again issued an unqualified audit opinion on the summary financial statements, which means the summary statements are presented fairly, in accordance with Canadian public sector accounting principles.

We noted that understanding the purpose of the summary financial statements and the summary budget is important in order to evaluate the government's financial affairs. In our report on the operations of the office for the year ended March 31st, 2012, we reported that we are looking at ways to assist the Legislature with its discussions around debts and deficits, and that's a project that's currently ongoing.

In our Chapter 1 report, we provide explanations of the summary financial statements and the summary budget. We explain that the actual deficit was \$561 million greater than budget. The differences comprised of \$437-million net loss related to unbudgeted disaster costs, net of recoveries, and \$124-million net loss related to unbudgeted non-disaster costs.

We also define net debt, total borrowings, the accumulated and annual surplus or deficit, change in net debt, and cash position and cash flow.

We have listed significant matters that arose from our financial statement audits and we reported that additional information about personal income tax revenue is available but is not being used to estimate the year-end revenue figures. The health-care liabilities recorded by the government are not reconciled to those recorded by the regional health authorities. Environmental liabilities are not revalued. The International Polar Bear Conservancy Centre is recorded as an asset but we believe it should be expensed. The Leaf Rapids town property limited is not financially viable.

Our report also lists prior year recommendations. Three of our recommendations were implemented,

being: the removal of the reference to core government from the audited financial statements; the accounting for non-vested sick time was addressed; and the Province completed a cross-government review of supplementary audit reports, and the exception to the review was a supplementary report required under section one-ninety dash two of The Municipal Act. Fifteen other recommendations remained in progress.

Mr. Chairperson: Thank you and welcome to the Minister of Finance and deputy minister, Mr. Clarkson. Can you introduce staff that you have with you, please, and do you wish to make an opening statement?

Hon. Stan Struthers (Minister of Finance): I have Betty-Anne Pratt, our provincial comptroller, with me here at the table.

And I was not going to make an opening remarks this time since—bulk of these reports we've been dealing with already in previous meetings and felt that Carol's summary would cover off everything that we needed to cover off on her annual report.

Mr. Chairperson: All right. Thank you.

Before we get into questions, I would like to remind members that questions of an administrative nature are placed to the deputy minister and that policy questions will not be entertained and are better left for another forum. However, if there is a question that borders on policy, and the minister would like to answer that question, or the deputy minister wishes to defer it to the minister to respond to, then that is something we will consider.

The floor is now open for questions.

Mrs. Myrna Driedger (Charleswood): A question for the deputy minister: I think the last time we were talking about this was February 25th, and there'd been a commitment made from the deputy minister, to provide a number of pieces of information that he didn't have. And, I'm just wondering, did I miss getting something or these just haven't been sent yet?

Mr. John Clarkson (Deputy Minister of Finance): The answers to those questions are currently being compiled and we'll get to those to you as quickly as we can.

Mrs. Driedger: If I were to look at volume 1, page 74, and we're looking at debt servicing, can the deputy explain whether the \$815 million is just debt servicing of the core, or is Hydro debt servicing included in that number as well?

* (19:10)

Mr. Clarkson: The 815 is reflected in our debt-servicing costs, relates to our summary financial statements report for March 31st, 2012. It's a combination of our core reporting as well as entities that are consolidated on that basis. It's included in there; it does not include the debt-servicing costs of Manitoba Hydro for example, because they're incorporated into our summary statements on a net basis—a summary basis.

Mrs. Driedger: And if we were to look at the federal transfers, particularly equalization, can the deputy minister just give us a bit of a sense of the differences and why those differences are showing between 2011 and 2012? I would note that the number has decreased in 2012. Can the deputy just explain what might be happening there?

Mr. Clarkson: The equalization calculation is a formula. It's based on the fiscal capacity of the Province versus its fiscal capacity in previous years as well as comparison to fiscal capacity of other jurisdictions within a capped system.

So, relatively speaking, the differences we would consider to be fairly minor and they would be related to those kinds of normal formula adjustments that would take place as a result of those calculations.

They—in that year we were also part of a program called Total Transfer Protection, and any loss that we would have received in equalization payments would have been made up for in Total Transfer Protection to keep the three major transfers of health, social and equalization at a relatively equal amount.

Mrs. Driedger: Can the deputy indicate what percentage of Manitoba's revenues come from federal transfers? I guess in terms of the Manitoba budget, what percentage of the Manitoba budget revenues are made up by federal transfer payments?

Mr. Clarkson: In fiscal year '11-12, the year in which we were talking about here, the total federal transfers made up about 31 per cent of our provincial revenues.

Mrs. Driedger: From that percentage it sounds like Manitoba's very dependent on federal transfers. Can the deputy indicate how sustainable that is?

Mr. Clarkson: The federal transfer system is one that mainly is made up of three different programs,

as I've mentioned: the health transfers, the social transfers and equalization programs.

The health transfers and social transfer programs are currently set in terms of their formulas until 2024, and equalization currently set until 2017.

So on that basis, the—we have consistency and predictability in the level of funding that comes from our three major programs.

The other activities that affect those transfers relate to things like emergencies and disasters; they relate to things like infrastructure programs and other federal provincial arrangements that take place. And those we negotiate on an individual basis each time that they happen.

So we believe that based on the formulas that are now in place and the agreements in place, that we do have certainty and predictability in terms of the level of funding that we would be receiving.

Mrs. Driedger: Can the deputy just take me back—what year did he say they—the Canada Health and Canada Social Transfer amounts were set to—2024?

Mr. Clarkson: Oh, sorry—2024, and equalization to 2017.

Mrs. Driedger: And then on the health and social transfers then—what does that formula look like 'til 2024? Is there—what are the dollars attached to that, or percentages?

Mr. Clarkson: The Canadian health transfers will grow by 6 per cent between 2014-15 and 2016-17, and then starting in 2017-18 by a three-year moving average of nominal GDP until 2023-24.

The Canadian social transfer will continue to grow at 3 per cent until 2023-24.

Mrs. Driedger: Perhaps the Minister of Finance could give us his sense of how sustainable he feels this is when Manitoba is reliant for 31 per cent of its budget on federal transfers.

Mr. Struthers: First of all, every Province in the country contributes into this pot of money and every Province in this country receives from this pot of money in terms of the transfers.

Our 31 per cent is about the middle of the pack when it comes to—which she refers to as our reliance. Some Provinces are reliant to the tune of 14 per cent and some to the tune of about 41 per cent. So we're pretty average in terms of—her term—reliance.

What I appreciate is, at the very least, is the predictability now that we do have, and that's because of a lot of hard work on the part of our officials and the Canadian officials.

The downside of that, though, while we like to have things that are predictable, it is very clear that we are flat-lined in terms of the money that we receive, and in particular—in particular with the Canada Health Transfer we've seen a movement downward over the years and into the future. Whereas, at one point the federal government—a share of health costs in Canada were—was at 50 per cent. Today there's—hovering down below 20 per cent and they're projected to go to somewhere in the area of 11 or 10 per cent. So we see, just at a time when health pressures are building the federal government is stepping away from its commitment to health care and is reflected in its share of the money that it transfers not only to us, but to other provinces.

The reason that things took a turn for the worst a year and a half ago when Minister Flaherty brought forward this package was that they went to per capita in terms of funding, which really benefited Alberta. It did not benefit other provinces including Manitoba, in particular, provinces that do not have the kind of fiscal capacity of other provinces. Essentially, it was resource provinces that—oil and gas provinces, particularly, that I felt—that we felt benefited through the changes that they made.

* (19:20)

The other thing that has happened is that Ontario is receiving equalization for the first time in a long time and they are—and that equalization number is a capped number. So, when they moved Ontario into that equalization slot, they took up the biggest chunk of that which impacted us and Québec and New Brunswick and Prince Edward Island.

So I—you know, Mr. Clarkson is absolutely correct; there is predictability. But we can very safely predict that we're flat-lined again this year as we have been for the last number of years, and that it's very easy to predict that that percentage in terms of health-care support continues to fall.

Mrs. Driedger: It would seem to me that 31 per cent of our budget coming from other provinces is a pretty big chunk of the budget, and I would note that yesterday the minister—in a post-QP scrum outside—said that clearly an organization that is this dependent on a government subsidy today is not sustainable. And, yet, he has certainly—receiving a

fair chunk of revenue that is coming from elsewhere and, you know, it would seem to me that the two situations are very, very much the same. So, you know, if he felt that an organization that was surviving on subsidies is not sustainable, I don't know how he can feel that this is something that's sustainable either. Perhaps the minister would comment.

Mr. Struthers: Well, the Jockey Club in Manitoba receives a 100 per cent subsidy. They receive over \$9 million from us. They have claimed that they would go bankrupt if they lost \$5 million of that. We are not in that position. I understand how—why it is that this member is trying to reach as far as she is to draw that kind of a comparison, but, Mr. Speaker—or, Mr. Chairperson—if she's saying that we should not stand up for the province and receive what is ours fairly in terms of transfers from Ottawa, then I think she's absolutely mistaken. Maybe she should talk to the folks in Manitoba about whether or not we should give up more revenue and how we were going to replace that revenue, either replace the revenue or cut programs.

I mean, their—her position has been very clear: that they would make up that difference. And I'm going to take a little bit of a leap here too. If we were to get less than what we're getting from Ottawa, my assumption is that her party would make up that difference in cuts to health care and cuts to education and cuts to infrastructure. I'm not going to have a position to give up 31 per cent. I'm not in it—going to—I'm not going to put the province in a position where we give up any kind of transfers that we pay into and receive from.

We legitimately participate in the Canadian federation. We legitimately give money into that federation and legitimately receive from that confederation just like every other province in this country. So my preferred approach would be to continue to work with the federal government, work on each of these areas of fiscal arrangements, if necessary, be firm with the federal government so that Manitoba gets its fair share of the money that's there and not have to turn to cutting programs in order to make up for that difference.

Mr. Chairperson: Before we move ahead, I would like to caution the members of the committee to keep our questions and remarks pertaining to the reports in front of us, and to the witnesses as well to keep our questions and remarks, responses to the material in front of us. Thank you.

Mrs. Driedger: In volume 2, I wonder if the deputy could indicate what percentage of civil service employees were included on the list of compensation over \$50,000.

Mr. Clarkson: I'm sorry, I don't have the actual percentage with me. I know that that is a significant percentage now, much higher than what it used to be when the guideline was first brought in. We do have a recommendation from the auditor in terms of addressing that issue, and the government is looking at ways that it can try and address the issue of the number of people now being reported within the context of that \$50,000 limit.

Mrs. Driedger: Would the deputy be prepared to provide us with what that percentage would be?

Mr. Clarkson: Yes, we can get that percentage.

Mrs. Driedger: Dealing with, again, volume 3, section 1-14, and if we are looking at expense types, we would note that there has been an increase in terms of personnel services from 2011 to 2012 in the amount of \$60 million. Can the deputy indicate why that number has gone up so much in just one year?

Mr. Clarkson: The specific details of that \$60 million we don't have here with us. We can certainly provide a breakdown of that major change—of the major changes for the member.

Mrs. Driedger: Can the deputy indicate whether that is an unusual increase? Considering we were in a period of supposed cost-cutting, \$60 million seems to be quite a jump.

Mr. Clarkson: Again, I think I'll wait to generally comment on that when the specifics come in, but the '11-12 fiscal year was the year of floodfighting. It was the year of a couple of other activities that took place. Those wouldn't actually increase costs because of the nature of employment that took place during those kinds of activities, but the details I think would indicate whether or not these are unusual cost increases or not.

Mrs. Driedger: I note that, under transportation costs, that that looked like there was a decrease in spending, but communication, it—there was an increase in spending. Can the deputy indicate what communication—what that column actually comprises?

Mr. Clarkson: In volume 3, on page 1-13, we provide definitions of what's included in each one of those categories, and it indicates that communications is the cost of telephones, telex,

postage, advertising, other costs related to the dissemination of information to the public or to the employees of the government, which are included in this category.

Mrs. Driedger: Under debt servicing, I notice that there's various amounts attached to different departments. Can the deputy indicate what the Legislative Assembly debt-servicing charge is for?

Mr. Clarkson: I'll check on that one. I'm not sure what that one is.

Mrs. Driedger: And then for the other items that are showing debt servicing, can the deputy explain? Is that based on the borrowing from each of those departments?

Mr. Clarkson: Each of the departments that incur capital expenditures. It could be related to road construction, information technology development, and other activities where funds are borrowed for those purposes. The costs related to that are charged back to the individual departments. That's the cost of carrying those individual capital amounts. So what's reflected here is the costs related to carrying those capital expenditures.

Mrs. Driedger: So—and I think the deputy just confirmed it that these are based on capital borrowing. It's not related to carrying any other debt.

Mr. Clarkson: It's related to the costs of the capital expenditures related to their specific program areas.

* (19:30)

Mrs. Driedger: If we go now to amounts receivable, 2-6, under corporation capital tax, can the deputy indicate why it jumps so dramatically from 2011 to '12?

Mr. Clarkson: We'll have to get the specifics on the details, just what's related to that change in corporate capital tax.

Mrs. Driedger: Would that have been because there was a raise in that tax?

Mr. Clarkson: I'm not aware of that, so I'll have to check on that.

Mrs. Driedger: And the—let's see—individual income tax and insurance corporation taxes both went up. Can the minister give any background as to the significant rises in both of those?

Mr. Clarkson: The specifics as to why there are differences in receivables year over year is information that we don't currently have with us.

This isn't the amount of taxes that would affect these. This would relate to the amount that we had actually been paid to as versus what we have been indicated that is owed to us. And so we can get the details as to what that difference is, but I don't have the differences in terms of what the cause of the change in receivable is for us.

Mrs. Driedger: Can the deputy explain the difference to me between gasoline tax and motive fuel tax, and then walk me through why, for instance, the gasoline tax, there's nothing showing for 2012, and then if we go down to the motive fuel tax, it's jumped dramatically from 2011 to 2012. Can he explain to me what the differences are in those areas and—so I can understand it?

Mr. Clarkson: There was a change in classification of a kind of fuel. Jet fuel was classified under the gasoline tax before we consolidated everything under the motive fuel tax, so it's all in one place.

Mrs. Driedger: Can the deputy explain the line on profit tax on credit unions? I see there was nothing in 2011 and then quite a substantive amount in 2012—what's that about?

Mr. Clarkson: Again, we can get the details on all of the receivables for you and get those to you. I suspect it's just in terms of timing of when the payments were made versus what was actually owed to us.

Mrs. Driedger: Now, if I understood the deputy earlier, was he saying that these are taxes that—or are these, I guess, simply taxes owing due to the end of the fiscal year or are there actually still some amounts that are back taxes that are still owed?

Mr. Clarkson: These are revenues or taxes that have been earned and recorded over whatever period of time exists and have not yet been paid to us. So they're not just related to the current fiscal year being reported on in this time frame.

Mrs. Driedger: Can the deputy tell us, for instance, last year, how much might have never been collected? Is that something that is tracked where a government can actually track year to year the amount of writeoffs they have then, I guess, based on uncollected taxes?

Mr. Clarkson: On page 3-3 is a listing of all of the writeoffs that took place, and under the finance section you can see the writeoffs related to corporation capital tax, levy for health and education,

motive fuel tax and retail sales tax are written in there. The total amount is \$771,995.

Mrs. Driedger: On page 2-7, under GBEs, under special operating agencies—can the deputy explain what happened between 2011 to 2012 to show such a dramatic change in that number?

* (19:40)

Mr. Clarkson: Yes, again, we didn't bring the details with us on the changes in receivables and what would've caused that. So that will be included in the report that we will provide back on the changes in differences in receivables.

Mrs. Driedger: On page 2-8, under loans and advances, I can see that the total amount increased in loans by \$920 million. Can the deputy indicate where the largest increases were experienced? Is it—would it be accurate to say that Hydro probably would be the one that experienced a significant increase in loans?

Mr. Clarkson: Certainly, from a borrowing perspective, the outstanding amount related to Manitoba Hydro is the most significant increase that's there.

Mrs. Driedger: Out of all these loans that the government gave, do you expect them all to be collected? And I would ask the deputy minister that.

Mr. Clarkson: Certainly, in the way that the information is presented, we would expect the net amount of all of these to be collected. We've assigned evaluation allowances where appropriate in each one of these cases, and that's been taken into consideration in the statements themselves.

Mrs. Driedger: Section 2-12, writedown of loans, Manitoba Development Corporation, can the deputy explain—it looks like there was a \$5.5-million writedown in that year. Can the deputy minister explain that?

Mr. Clarkson: I don't have the details here with me on the Manitoba Development Corporation. That's actually under the Department of Entrepreneurship, Training and Trade and would suggest that that's a question that could be directed to them.

Mrs. Driedger: Section 3-10, on statement of expenses related to capital and future contracts, there's three areas there that seem to have significant future commitments related to capital and service contracts. I wonder if the deputy minister can provide any further information on—if I was to look

at the areas of Family Services and Labour, Health, and Infrastructure and Transportation, can he provide some explanation as to those numbers?

Mr. Clarkson: We'll get the details back on those ones just to make sure we have the right projects that are being carried forward into future years for expenditures of that nature.

Mrs. Driedger: So, under Family Services where it says acquisition or construction of capital, am I reading this correctly that the number is \$73 million?

Mr. Clarkson: Yes, that's the correct number.

Mrs. Driedger: And then under Health, that is listed as service contracts worth about \$13 million. Is the deputy able to provide us with a list of what those service contracts are and the value attached to each one?

Mr. Clarkson: We do have details on these ones, and we will put that together for you.

Mrs. Driedger: And I'm assuming, then, on Infrastructure and Transportation as well?

Mr. Clarkson: Yes, we'll do that as well.

Mrs. Driedger: Under Infrastructure and Transportation, under acquisition or construction of capital—so we're looking at \$151 million there. Does the deputy have, off the top of his head, any projects that he knows of that might be in that category?

Mr. Clarkson: Specifics on projects, no, I don't have with me. The nature of road construction would be that we would've awarded contracts in the March time frame, for example, which would've carried on into future years, and so those kinds of things are what we will look at to see exactly what's creating that issue.

Mrs. Driedger: Under section 3-12, under highways and transportation program expenses, \$32 million hasn't changed from 2011 to 2012.

Can the minister indicate—we know we've got a huge infrastructure problem out there. Can the minister indicate why that number didn't change between those two years?

Mr. Struthers: Sure. The number that the member for Charleswood references is the—is an increase from '011 to '012. It has to do with the people connected to the projects.

The number below that and the line, road construction and maintenance, shows a very healthy

increase year over to year in terms of construction projects.

So the first number has to do with the people working on them. The second is our very substantial commitment to solving the infrastructure gap that she speaks of.

Mrs. Driedger: And that was my next question, whether salaries was part of that line, and so I thank the minister for that.

Mr. Cliff Cullen (Spruce Woods): In talking about infrastructure—I think the minister referenced it earlier—we had a fairly significant water event in 2011 and, obviously, we're still dealing with infrastructure issues relative to that flood. In fact, I know of a couple of bridges, for instance, in my area which need replacing and there's been really no indication those bridges would be replaced.

So, relative to your statements, do you have a list of the infrastructure requirements that are out there as a result of the 2011 flood? I mean, speaking specifically about roads and bridges.

Mr. Struthers: Yes, he—my colleague from Spruce Woods is right. I mean, this flood is the flood that just keeps on costing and there are a number of projects around the province that come as a result of that flood. We have a plan on a go-forward basis to pay for those projects that were impacted by the high water levels two years ago. For specifics on which bridge and which road are contained within that plan, I would suggest he speak to people in MIT that—to get that kind of a level of detail. But our commitment has been to pay for the infrastructure that was negatively impacted by the flood of 2011.

* (19:50)

Mr. Cullen: So the Department of Finance, then, doesn't have a list—I would think they would have that list of infrastructure that requires replacement. Obviously, it has a bearing on the financial statements that you're proposing as of the end of the year, 2012. Does the Department of Finance not have a list of, you know, certainly of the capital projects that are going to be required?

Mr. Clarkson: As I indicated in the previous answers to the numbers that were for go-forward activities, we will get that together and show what's included in those projects on a go-forward strategy that's already been recorded.

The plan related to road and bridge replacement is a plan that has been prepared by the Department of

Infrastructure and Transportation and they are the ones that have the complete plan for this year and future years, in terms of activities related to that, and it would be best to deal with them on what that plan relates to, in terms of their capital programs.

Mr. Cullen: Just to be clear, then, you're going to be able to get that report for us and you would supply that to us, and how soon?

Mr. Clarkson: We'll get the report that we can get from them and the report, as I indicated, on what we included in future-year commitments. Questions related to those programs, though, should be directed to the Infrastructure and Transportation Department itself.

Mrs. Driedger: Can I just ask the deputy what time frame he's able to comply with these requests. I'd note that the questions asked—end of February, so March, April, May—we're still waiting.

And considering the session is still sitting, can we expect something within the next few weeks? I know the department is very busy and I appreciate that the deputy has probably got his hands full with a number of issues right now, but can he give us a reasonable date as to when he might be able to provide us with all of this information?

Mr. Clarkson: On the outstanding items from the meeting in February, certainly we can get that back to you within the next few days. Actually, that one is just about ready to be prepared.

On this one, I'm sure within the next few weeks we can certainly get responses back from this meeting.

Mrs. Driedger: Thank you, and that's fair.

My final question: Can the deputy explain at the back of volume 3 there's something called a Northern Affairs Fund, and there's a management report. Can the deputy explain why this is, you know, like a separate entity within this—within his document and explain what this Northern Affairs Fund is?

Mr. Clarkson: The Northern Affairs Fund is a trust account and it manages the unincorporated communities in northern Manitoba, and it's required to be reported on in the volume 3 in terms of the financial statements, and so that's what this reflects.

Mr. Chairperson: Before we carry along here, I just want to go back to the information that you're going to provide to the committee, Mr. Clarkson, and you've committed over the next few days—I would

imagine that means within a week—to respond to the first requests, and I would prefer to have a dedicated timeline to the requests from this meeting, if that is possible.

Mr. Clarkson: On the first one, certainly I'm committed to get that back to you by the end of next week, which would be a Friday.

On the request from this one, I need to assess this with others before I can give you a specific date on that, but we will get back to the Clerk of the committee itself with a specific date on Monday.

Mr. Pedersen: Volume 3, March 31st, 2011, section 1, page 3, there's cash and cash equivalents, and under cash equivalents at cost, there's Canadian Wheat Board, \$9,973,000. Can you explain what that is?

Mr. Clarkson: Can you give me the page reference and which volume we're talking about in volume 3?

Mr. Pedersen: Volume 3, section—as of March 31st, 2011, 1-3.

Mr. Clarkson: So these represent our money market investments, and the Canadian Wheat Board investments at that time would've been a note that they would have issued.

Mr. Pedersen: So just so I understand correctly, the Canadian Wheat Board issued a note to the government of Manitoba for just short of \$10 million?

Mr. Clarkson: The Wheat Board would have issued the note into the public market, and we would have bought it based on the market conditions at the time.

Mr. Pedersen: So it's on the public market and then you will pay back the—this to the Canadian Wheat Board then. Or is there a timeline on this when this is paid back? This is a bond issue that you bought on the public market offered by the Canadian Wheat Board. What is the time reference to pay it back?

Mr. Clarkson: All of these activities are related to managing our cash requirements on an individual yearly basis, and so we acquire these within a year and pay them off within the year that it takes place. And so that's why they're in the category of cash and cash equivalents, and it's the way in which we ensure that we maximize the benefits out of the—any cash that we might be holding.

Mr. Pedersen: Do you—would you know what the interest rate would be on this bond?

Mr. Clarkson: No, we'd have to go back and look up what that one was at that time.

Mr. Pedersen: Okay. Moving on to something else then.

Budget 2011—so that would be the fiscal year 2011-2012—created a sales tax exemption on biomass materials. So I'm interested to know what is the process in the budgetary procedure then to allow for that sales tax exemption, and it's an exemption in this case.

Mr. Clarkson: Decisions like that would've been brought forward as opportunities that the government's departments would have generated through their budget processes, and government would've gone through that as part of their Estimates processes to make a decision on whether that's an area that they wanted to support or not support. And this item obviously was one that came forward as part of a biomass strategy the government was looking at.

Mr. Pedersen: So this was an exemption—provincial sales tax exemption. Were there any provincial sales tax expansions in that fiscal year?

Mr. Clarkson: No, there were no expansions in provincial sales tax in that year.

Mr. Pedersen: So in terms of this exemption—and we can only talk about exemptions then because there was no expansions in this fiscal year—does it require legislative approval before it's implemented or what is the process?

Mr. Clarkson: Yes, that would've been part of the budget implementation bill because of it being a tax change.

Mr. Pedersen: So the acronym for the budget implementation is BITSA. So, when BITSA is passed then in the Legislature, that—this particular sales tax exemption would come into effect then on the effective date whatever is set out in regulation.

* (20:00)

Mr. Clarkson: That would have come into effect at whatever date the government approved it to be coming into effect.

Mr. Pedersen: So that would be the same then if the—and, again, looking at budget year 2010-2011 or 2011-2012, because that's the two fiscal years we're working on, if the HST had been introduced at these times that would be the same procedure then, or would that require legislation?

Mr. Clarkson: The implementation during that time frame, as it is today, of HST would require a federal legislation to be passed to do that and require us to repeal our provincial sales tax, and so that's not an item we would have addressed through a budget implementation.

Mr. Cullen: I want to go back to some earlier comments the deputy made in response to some questioning by the member for Charleswood (Mrs. Driedger), and it goes back to page 74 of the 2012 annual report.

Mr. Chairperson: Which volume, Mr. Cullen?

Mr. Cullen: Volume 1.

Mr. Chairperson: Volume 1.

Mr. Cullen: So I just want to clarify again the comment you made—the debt-servicing note, under note 8—so it's \$815 million just for the core debt, provincial core funding?

Mr. Clarkson: So on page 93 is note 8, which has the breakdown of the debt-servicing costs of \$815 million and indicates there the different entities which make up that activity.

Mr. Cullen: So then the debt-servicing cost to Manitoba Hydro, is that included in that \$815 million?

Mr. Clarkson: No, the debt-servicing costs incurred by Manitoba Hydro are not included in that number.

Mr. Cullen: I think if we flip then to page—I just wanted to clarify this—I think it's page 102—yes, schedule 3 on page 102. The Hydro debt-servicing costs there would be the \$423 million, is that correct?

Mr. Clarkson: Yes, that's just Hydro there.

Mr. Cullen: So there's another \$7-million line of debt servicing under finance. Could the deputy explain that figure for me, please?

Mr. Clarkson: That number of \$7 million represents the debt-servicing costs of Manitoba Lotteries.

Mr. Cullen: So if we take those two figures on—for the utility and finance, that's \$430 million in terms of debt servicing, and we add that to the 815 under core debt service, I come up with \$1.245 billion. Would the deputy concur that that's our total debt-servicing cost?

Mr. Clarkson: Yes, the \$1.2-billion figure or reference would be considered our gross costs in terms of addressing the debt requirements.

Mr. Cullen: In terms of the debt-servicing costs for Manitoba Hydro, I understand that the Province of Manitoba guarantees the debt of Manitoba Hydro. Could you tell me what—how much Manitoba Hydro pays in this fiscal year for that guarantee to provide guarantee for that loan to Manitoba Hydro?

Mr. Clarkson: In '11-12 they paid \$85.7 million.

Mr. Cullen: And probably on that same page that you have, you would also have the water rental rate that Manitoba Hydro paid the Province of Manitoba.

Mr. Clarkson: Water power rentals for Manitoba Hydro in '11-12 were \$111 million.

Mr. Cullen: I'm interested in the—if you can kind of provide me a ballpark interest rate in terms of what you're—we are paying on the debt. Do you have a kind of a ballpark figure? I know you have a lot of different issues and different types of debt structure, but if you could give us kind of a ballpark of what type of a percentage we're, on average, that we're dealing with at the end of fiscal 2012, '11-12.

Mr. Clarkson: I don't have the borrowing rates for the '10-11 or '11-12 fiscal year that we're talking about today. Currently our Crown rates range from 1 and three quarter per cent for two-year terms up to 4 per cent for a 30-year term.

Mr. Chairperson: Mr. Clarkson, I have a couple of questions for you if you don't mind, about debt. I understand that the Finance Department goes to New York and perhaps Toronto and elsewhere talking to bond rating agencies. Can you give me an idea of when that usually happens, who goes on those particular trips and who you meet with there?

Mr. Clarkson: Normally, we try to do three trips per year related to what we call investor relations activities. Usually, after budget time into Toronto and New York, where we will do presentations on the provincial budget and answer any questions from investors at that time related to helping them understand who we are and what our requirements are and the capacity of the Province related to that borrowing requirements that we have.

We also try to do two other trips a year, again, for the specific purposes of helping others understand the capacities in Manitoba, who we are, to ensure that we have a good marketplace for our bonds when we put them out on the marketplace.

In terms of the credit rating agencies themselves, they specifically actually come to Winnipeg to meet with us here, usually in the end of May to end of June time frame, at which time they undertake detailed reviews of our activities and then report back to us sometime in the late summer, early fall kind of timing, on any changes that they might have in the ratings.

* (20:10)

Mr. Chairperson: So, on the particular trips then, who would attend from your department?

Mr. Clarkson: Generally speaking, myself and one or two other people from our treasury function would attend the trips. Last year, because it was the minister's first budget, we did have him attend one of the meetings in Toronto and New York with us. But the other ones are generally just staff.

Mr. Chairperson: Okay, and the reports that are generated by the bond rating agencies, are they such that could be made part of the report to this committee?

Mr. Clarkson: The bond rating agency reports are public and they can be circulated to anybody as soon as they're available.

Mr. Chairperson: Okay, and have those—their opinions changed at all over this period that we're talking about in terms of bond rating agencies and the rating that you have received from them?

Mr. Clarkson: During this time frame of '10-11 and '11 and '12 we have received stable ratings from the credit rating agencies.

Mr. Chairperson: Has there been any guidance from those agencies in terms of a market cap or anything that Manitoba would be subject to?

Mr. Clarkson: No, there's been no guidance given to us in terms of any kind of caps or issues related to the activities we've been presented.

Mr. Chairperson: Okay. Do you expect—what do you expect that cap might be?

Mr. Clarkson: I actually have no idea what they might think about in terms of issues related to that.

Mr. Chairperson: Okay. So you are issuing debt then, essentially, in terms of bonds and they are purchasing at a particular discount rate. Is that correct?

Mr. Clarkson: We would go out into either the Canadian or the US market space with our bond

activities or we would have people that will approach us directly in terms of providing us with debt and we would examine each one of those cases in terms of the costs that we might incur in terms of borrowing those funds.

Mr. Chairperson: Has that changed since, say, five years ago when we had an economic downturn? Has it been the individuals that are interested in that debt? Obviously, it changed a bit, but the market is increased, decreased, flat; how would you describe it?

Mr. Clarkson: I would describe that we still have a fairly robust market in terms of sovereign debt simply because the marketplace does have a fair bit of cash that's still available. And the places for—to place that has become smaller because of issues that have taken place in ratings of other entities.

Mr. Chairperson: Okay, and, I guess, now you answered about the particular years we're talking about. I assume then, then going forward we have a stable bond rating group out there that's looking to purchase our debt and you would anticipate that our rating may or may not change?

Mr. Clarkson: We've been in the marketplace already this year and had no difficulties in terms of the—what we were looking for and the capacity seems to be there to continue. We will know more about what the rating agency's say after they've been in to actually do their detailed review.

Mr. Cullen: Mr. Chair, I just wonder if the deputy could say when that particular review would be undertaken.

Mr. Clarkson: Standard & Poor's has been scheduled for May 16 and we're still waiting for the other two in terms of the schedule from them.

Mr. Cullen: So, once that review is done then, how soon before you would know what your—if your rating is going to be changing at all?

Mr. Clarkson: It's usually in the fall. There's no specific time frame other than that that we are usually given.

Mr. Cullen: So this review is done by those companies on an annual basis?

Mr. Clarkson: Yes, they're done annually.

Mr. Cullen: In broad terms, can you tell us, you know, where our debt is in terms of whether—you said—mentioned some in the Canadian market, some

in the US market. Can—in broad terms, can you kind of advise us where our debt is located, if you will?

Mr. Clarkson: I'll get the details specifically. I don't have them here with me, but, roughly speaking, the majority of our funds are borrowed in Canadian dollars, a small amount in US dollars. The US dollars relate directly to the Hydro activities, and that's because of the US activities that they have. It's good to keep US dollars for them. But I can give you the specific ratios for each one of those years. We do have that.

Mr. Cullen: I would be appreciative if the deputy could supply that to us. That would be quite interesting.

Clearly, our debt-servicing costs, now in that \$1.2-billion figure—a change in interest rates will have a fairly dramatic effect on the figure that we're going to be charging on—go-forward basis. I wonder if the minister, the deputy minister, could tell us what a 1 per cent change would mean to Manitobans in terms of the debt-servicing cost.

And, again, Mr. Chair, I'm thinking here in broad terms. I realize you have a number of different debt instruments, but, in broad terms, what a 1 per cent change would mean in terms of our debt-servicing costs.

Mr. Clarkson: In terms of the current year, a 1 per cent change in interest rates would cost us roughly \$13 million on our short-term activities and roughly \$3.6 million on our long-term activities.

Mr. Cullen: I guess I'm just kind of moving ahead. You know, the deputy referred to our current levels of debt. So a 1 per cent increase in our total debt which is going to be, I guess, at the end of this budget year, is about \$30 billion. So a 1 per cent change on that \$30 billion is only a change in \$16 million in debt-servicing cost?

Mr. Clarkson: One of the strategies that we have been using is to try and spread out when debt is coming due, so it's not all coming due at the same time. So a 1 per cent change, for example, in this year, would only affect the debt that we would either be borrowing for the current year's activities or debt that we would be renewing for the current year's activities. Anything else is already fixed in terms of the cost and the terms that exist over the time frame until that debt becomes either renewed or paid off at that time.

Mr. Cullen: Well, clearly, that's a snapshot in time, then, in terms of what's coming up for renewal at this year. And I guess once we get the numbers from you in terms of the—how that debt is structured, we can maybe better address those specific situations.

Mr. Clarkson: Yes, we can provide the numbers on how our current debt is structured over a period of time.

Mrs. Driedger: Just a point of clarification for me, going back to volume 3, section 2-6, on amounts receivable, is my interpretation correct that, at the end of the fiscal year of '11-12, that there is sitting in the vicinity of half a billion dollars of taxation revenue that is still to come in, those are—that's the amount the government is still waiting for?

Mr. Clarkson: At the end of March 31st, 2012, that is the number that would have been waiting for us to come in, keeping in mind that a large portion of tax is paid in the subsequent month. So we would have received a large portion of that in April. So it's a timing issue more so than anything else.

Mrs. Driedger: And then I guess, just going back to the earlier discussion, within that, there could be current taxes owed but there might be some back taxes, but you're indicating that that's not a very big amount. Is that accurate?

Mr. Clarkson: What I'm indicating is I'll get you the specific details on what that breakdown looks like.

* (20:20)

Mr. Cullen: I want to have a discussion about the fiscal stabilization account, page 121 of that same volume you were just discussing. In 2011 and '12, there was a couple of transfers—

Mr. Chairperson: Just a minute, Mr. Cullen. Mr. Clarkson?

Mr. Clarkson: Are you—sorry, are you referencing a specific page there?

Mr. Cullen: One twenty-one.

Mr. Clarkson: One twenty-one?

Mr. Cullen: Yes, sure.

Mr. Chairperson: So continue with your question there, Mr. Cullen.

Mr. Cullen: I'm wondering how the department—who actually decides how much will be transferred out of the fiscal stabilization account?

Mr. Clarkson: The draws from the Fiscal Stabilization Fund are approved as part of the government's budgetary process.

Mr. Cullen: So that decision, then, is made by Cabinet?

Mr. Clarkson: That is correct.

Mr. Cullen: You know, in terms of the fund, at the end of 2012, there was \$526 million there. I understand that some of that money is already—is allocated to certain uses. Could you explain that to us if there is an allocation—some of those funds have been allocated to certain services?

Mr. Clarkson: So in terms of that current year, in '11-12, you can go to page 123, and you can see the breakdown there in terms of the purposes of the fund itself. And so it identifies, for example, health program transfers, a wait-time reduction programming. That was funds specifically dedicated for that purpose.

You can also see under general program transfers the 110 I think is the—oh, sorry, the 6401. I think that's the number. That related to the ecoTrust as a specific program.

Other than that, in that year there was no additional money dedicated for specific program purposes and no funds currently dedicated for specific program purposes.

Mr. Cullen: I appreciate that. So what this chart is showing us is basically what that transfer out, that \$155,000, was used for.

I'm interested in the \$526 million that was left at the end of the year. What is that particular amount? Is it dedicated to some future youth—use in terms of, you know, your health programs or ecoTrust, or what is the allocation that has to be committed to any given department?

Mr. Clarkson: There is no dedication from that 526 on a go-forward basis. The only current plan that was for that 526 in the '12-13 fiscal year was for debt repayment, and that was part of the government's budget.

Mr. Cullen: So there is been no federal funds transferred into the fiscal stabilization account where they have earmarked it for certain services.

Mr. Clarkson: No, there was none of that.

Mr. Cullen: Okay, I appreciate the deputy's response to that.

Mrs. Driedger: I wonder if the deputy could just explain something to me, and I'm curious as to when did—I know when the fund was set up that it was set up to be, you know, as it was called in the day, a rainy day fund—it was set up for emergencies. When did it change, that it was allowable for money to be taken out of this fund for debt payment or debt-servicing costs? And what mechanism was used to make that change?

Mr. Clarkson: The purposes of the use of the fund were part of the legislation that actually established the fund in the first place, and debt repayment was one of the purposes that was established in the legislation.

Mrs. Driedger: And is the minister indicating that in the original balanced budget legislation that the fund—this fund was set up to actually be allowable to pay—use it to pay against debt and debt-servicing?

Mr. Clarkson: We'll have to check on the specific date of when that was included in the legislation, but it was—is in the amendments to The Balanced Budget, Fiscal Management and Taxpayer Accountability Act that it took place. And it's referenced in the notes on page 122 in terms of that change in the \$600 million.

Mrs. Driedger: So that would've probably then been, though, in an amendment. It wasn't in the original act, is that correct?

Mr. Clarkson: That's correct.

Mrs. Driedger: And also, I can see that it is indicating that at the end of every year, the government is encouraged or—I guess I'm wondering if it's actually more than that—if it's by legislation that they are required to have at least 5 per cent of the core government expenditures—that amount actually kept in the—a fiscal stabilization fund.

Mr. Clarkson: We'll check on the specific wording in the legislation and get that back to you to make sure that we respond to that appropriately.

Mr. Chairperson: Mr. Clarkson, I have a question for you about that as well. What type of instruments would that be invested in, in terms of maturity dates and that—and such? Are they long term, mid-term or a mixture of all?

Mr. Clarkson: The majority of that would be invested in shorter term notes. There is some of it that would be longer than a year, but not substantially longer than that.

Mrs. Driedger: If the rule is in place now that at the end of each fiscal year there should be at least 5 per cent of the core government expenditures for that year, it appears that with the numbers that are currently in our budget, that we are now below that 5 per cent. Is that correct?

* (20:30)

Mr. Clarkson: That would be correct in terms of calculation. The note indicates here that it would make every effort to be at that level, but we'll check, as I said, what specific legislation says and get that back to you on this.

Mrs. Driedger: Is making every effort good fiscal management in the mind of the deputy minister? It would seem to me that this a fund that is there for some—I know it was originally set up to be as an emergency fund for forest fires and flood so that the government had money for emergencies and didn't have to run out and borrow, that this was actually the savings account that they could tap into. But this government is now draining this fund for, you know, for paying down debt and for debt servicing and taking out a significant amount of money so that it is, at some point, probably within the next—and maybe we're already there, well below what it should be.

Does the deputy think that this is a good position to have Manitoba Finance in and, then, a good position for Manitoba taxpayers?

Mr. Clarkson: The decisions related to the level of funds and the withdrawals of that are part of the government processes and if government chooses that, then that's the course of action that they choose to do. I make no comment on whether that's good or bad in terms of the practices.

Mrs. Driedger: And fair enough, that is a good response from the deputy because he serves the person sitting next to him who is supposed to be the one that is making some of the financial decisions in this Province. But just to raise, you know, that as a concern, that I suspect if things keep going the way they're going, we're going to really see this fund drained.

A question that comes to my mind around debt right now, and I know that according to the five- or seven-year—whatever it is now—plan for paying down debt and deficit and what's it called, this five-year economic plan or whatever. The deputy, I believe, at the last time we talked about this, indicated that right now there is no payments being made against the debt, but we are—well, or he indicated there are debt

payments being made but because debt keeps going up, we're really not getting anywhere.

Can the deputy explain, in these two fiscal years that we're looking at here, how much was paid against the debt in each of those years and how much was paid in debt-servicing costs?

Mr. Clarkson: The debt costs specifically or the repayment of debt was a question that came up in the February meetings and that's in the answers which I'll get to you next week. And debt-servicing costs, we'll provide to you at that same time. They are detailed in here, but I'll put those all together in one sheet for you.

Mrs. Driedger: So can the minister then confirm that each year this can change on the whim of government, that there is no longer anything that says, you know, \$110 million has to be paid against the debt annually or a certain percentage, and I guess I'm worried I'm now going to be putting the deputy in another awkward spot because, again, it's going to be the Finance Minister that's probably calling the shots here.

But, you know, I'm going to leave it with the deputy minister to see what he wants to say to that.

Mr. Clarkson: So in the details and in the note it refers to \$600 million. That's the level of debt payment that's to be made over the five-year recovery period. After the recovery period ends, then the calculation reverts back to what was in the previous legislation and the details we will get to you.

Mrs. Driedger: Can the deputy indicate, though, what recovers in this period of time, because the debt keeps going up, so what does it mean when the language of economic recovery period—is that looking at a broader picture of, you know, Manitoba's economy?

Mr. Chairperson: Mrs. Driedger, would this be better asked, perhaps, in question period rather than relating in these two reports?

Mrs. Driedger: I don't know. I'm not sure. It's in here on page 122—

Floor Comment: Ask in Estimates.

Mrs. Driedger: —and we could.

Mr. Chairperson: I think, perhaps, that's a better venue for that than this particular committee.

Mr. Pedersen: I want to ask the Auditor General: environmental liabilities, and in 2011 it was \$487 million, and 2012, \$467 million. When you're doing your audit, do you actually get an actual list and a value of these contaminated sites?

Ms. Bellringer: Yes, we would look at the detail behind that; we would have a list.

Mr. Pedersen: So is there—you're given the list; you're given a value. Is there any sort of auditing process on that values so as to determine whether they actually are fiscally sound or not?

Mr. Chairperson: Ms. Bellringer.

Ms. Bellringer: Excuse me. I'm just checking with the experts behind me here.

So, when the amount first goes on the list, we do some level of testing, some verification of it. If there's a change to it on the list, we'll look at the change. But, where the amount remains on the list unchanged, that would actually lead into exactly what our recommendation is, that those should still be looked at by Finance and they should re-estimate them, even though there is no apparent change. There could, in fact, have been some—there could be additional costs attached to it or actually reduced costs attached to it.

Mr. Pedersen: So, to the deputy minister then: How are these values arrived at? Are they actually an estimate of perceived costs to remediate these sites, and what is the process that the department goes through to arrive at these values?

Mr. Clarkson: At the time when they were first established each individual department was responsible for estimating the cost of remediating the sites in current dollars at that time. We revisit that estimate each year with the departments to get them to update that based on any changes that have taken place as a result of either work that's been done, work that is anticipated, changes in cost structures related to that, and changes in the just general cost of the dollar itself.

Mr. Pedersen: So I guess we can add to your grocery list, then. You can provide us a list of these sites and how you arrived at, for instance, 2011 is \$487 million and then the change in 2012 to \$467 million?

Mr. Clarkson: Yes. We have the listing of sites and the change and we can provide that.

Mr. Pedersen: And, moving on to the International Polar Bear Conservancy Centre, would the Auditor General please explain to the committee the difference she has with the Finance Department over auditing of this project?

Ms. Bellringer: How much technical accounting do you want me to get into? And I'll keep it at a not-so-complicated explanation of the difference of opinion. I mean, the simple answer is we believe it should be recognized as a grant and expensed in the year, and the Province has recorded it as an asset. So it's showing up in the capital expenditures as opposed to as an operating expense, so it doesn't hit the bottom line. It will hit the bottom line to the extent it's depreciated, but only to that extent.

So, in the year that we're talking about, the amount was not that significant. It doesn't throw the financial statements off. But, in principle, we disagree with the treatment. It really boils down to who is benefiting from the existence of the building, and we don't believe it's the Province.

*(20:40)

Mr. Pedersen: Because, as they claim it as a capital asset, then they can also claim it as an asset? Am I correct on that?

Ms. Bellringer: It's a capital asset as opposed to a financial asset, so it's not reducing your net debt. If you go to the—if you go on the financial statements and you look at the way the net debt's laid out, the capital items show below that. If you're thinking about it from a budget perspective, it would be something that would appear in the Part B, capital expenditure, as opposed to your—to impacting the surplus or deficit for the year.

Mr. Pedersen: So, just if I understand this correctly, it doesn't affect their cash flow, then, because it's showing up underneath their cash line, as showing up as a capital asset?

Ms. Bellringer: So, unfortunately, cash flow's no different under either scenario. Cash—you still have to flow your cash when—at whatever—whenever it's required. So I'm maybe not quite getting the question.

Mr. Pedersen: So the deputy minister would like to explain his rationale why it's a capital asset and not a grant.

Mr. Clarkson: The Province believes it's the legal owner. It's the—provided the base building and the infrastructure; therefore, we believe that it does meet

the tests of an asset under the Canadian public sector accounting standards, and on that basis we recorded it in that fashion.

Mr. Pedersen: So, if you're the legal owner, then you have—what's the arrangement? You've leased it, the operating to the Assiniboine Park then, or what is the arrangement?

Mr. Clarkson: There's certainly an agreement between ourselves and the Assiniboine Park Conservancy to operate it. The APC is restricted from using the building for purposes other than the IPBCC. So, on that basis, we believe that it is our asset.

Mr. Pedersen: So, in your lease agreement, or whatever it is you want to call it, are you liable for any losses that the park has in operating this?

Mr. Clarkson: In terms of the operation of this centre, yes, we are responsible for any losses related to it.

Mr. Chairperson: And, Mr. Clarkson, are you the—then do you see yourself, the Province, as the owner of the entire building or a portion of the building? How would you portray that?

Mr. Clarkson: We see ourselves as the owner of the entire building.

Mr. Pedersen: So how does this work, then, for city taxes? Are you paying city taxes as a portion of that? I don't—you have to explain to me how Assiniboine Park, I'm assuming they don't pay taxes to the City. Are you paying city—property taxes to the City, then, for your asset?

Mr. Clarkson: I'm not aware of what the treatment is for that purpose is. We can certainly look into that.

Mr. Pedersen: Well, I would certainly be interested to know how much property taxes, if, in fact you are paying taxes on it. So—and because we're only dealing with this, the project balance is \$8 million. Mr. Chair, is it out of line to ask what the current balance is?

Mr. Chairperson: I'll accept that question.

Mr. Clarkson: Sorry, I need clarification on what the question actually is.

Mr. Pedersen: Under this—in this report it says the government has committed \$31 million to support the development of the IPBCC. The 2011-2012 project balance is \$8 million. So what I was asking,

of how much of that \$31 million has been used to date then on this capital project?

Mr. Clarkson: The \$8 million I believe you're referring to is contained on page 35 of the annual report to the Legislature. That relates to the amount that the auditor has placed on the schedule of unadjusted misstatements. That's the value that they've assigned in that, I believe.

Mr. Pedersen: I'm not sure I'm following you. So is that the \$8 million or is that the—what I was asking for was the current spent to date on this project of the \$31 million projected?

Mr. Clarkson: So the \$8 million reflects the payments made at the end of '11-12. We're—have not yet got an updated figure yet for the end of March 2013.

Mr. Pedersen: So the deputy minister will add that to the list, too, then. If the Chairman allows that, then I would like to get the current balance, assuming it's no more than \$31 million, but if it's more—even if it is more.

Mr. Clarkson: We're preparing that number and as soon as that number is available we'll have that to the member.

Mr. Pedersen: So moving on then and—

An Honourable Member: Can I just ask one on this?

Mr. Pedersen: Yes.

Mrs. Driedger: Just to confirm the—if I heard the deputy correctly, he said that the way this project was financed that it met public sector accounting standards. Am I correct, and that is what he said?

Mr. Clarkson: Yes, in terms of our interpretation of them, we believe that it meets the standards.

Mrs. Driedger: Can I ask the auditor whether it meets her interpretation of public sector accounting standards?

Ms. Bellringer: I'm sorry, and we would argue otherwise. So we don't believe that's—we think the proper treatment of using the same set of standards—it's two different interpretations, but our interpretation is that it should be expensed.

Mrs. Driedger: So—I mean where does this leave everybody then? I mean the government is doing it one way and, I mean, you're—and to the auditor, I mean she's the expert certainly on public sector accounting standards and it is her view that this does

not meet the standards, how is it that then the government can get away with doing this if it, in fact, is against the standard?

Ms. Bellringer: So, when we do our audit of the financial statements, we are auditing against those standards, and anytime there's a significant departure we consider that at the end of the year and if it was significant enough we would qualify the audit opinion. So you would see in our audit opinion that we would say it does not present fairly in accordance with those standards.

So the reason we didn't qualify on this particular item is it wasn't significant enough in the context of the full financial statements. So we did want to draw it to your attention because in principle we disagree with the treatment, and if it were to be applied to a larger item, or even, you know, by the end of the project, potentially it could be a larger percentage of the total that we're looking at and that our call on the full statements may change. But for the moment it's not a significant error in the financial statements, but we do disagree on the application of the policy.

* (20:50)

Mr. Cullen: I do have some questions for the deputy that's on a topic that seems to be near and dear to the minister's heart. I want to talk a little bit about The Pari-Mutuel Levy Act, and the—how that fund is administered, and in terms of what the Department of Finance—the relationship with the Manitoba Horse Racing Commission, I just want to—if you bear with me and hopefully answer some questions in terms of how this whole legislation works and the relationship with the Department of Finance. I go to volume 4 and the Horse Racing Commission is in this volume, and there's a line in here regarding the parimutuel levy. And this was the year—this is 2011—and it was just under \$2.5 million that was collected. I'm trying to get the process clear in my mind. Clearly, the legislation looks like it allows the Horse Racing Commission to collect that money from the parimutuel operation, and then it's put into a fund there. So then the Horse Racing Commission actually administers that particular fund. Is that correct?

Mr. Chairperson: Mr. Clarkson, do you require a copy of the report or—? Okay, Mr. Clarkson.

Mr. Clarkson: First of all, the statements in volume 4 are reproduced for information purposes only. We actually don't review them before they go into there, so we have no information or detail related to those

statements here with us. And, as in past when questions have come up on volume 4, we've actually referred you back to the organizations who are responsible for those statements in the first place.

Mr. Cullen: So, in terms of then enforcement of the act, who actually oversees that the act is being administered?

Mr. Clarkson: The minister responsible for the legislation is the—where that takes place.

Mr. Cullen: Well, which minister's responsible for The Pari-Mutuel Levy Act?

Mr. Clarkson: I'm being told it's the Finance Minister, but I will have to check on that.

Mr. Cullen: Well, thanks. Certainly, we'd appreciate that as well. We're kind of curious who might be the minister responsible for that, and who—obviously who would have the oversight in terms of that, the financials there. There's clearly, you know, like a \$2.5 million going through that fund. We would think that that there might be a watchdog that would have a look at making sure that the, you know, the funds were collected properly and that they were administered back to the right department. So, clearly, the Department of Finance doesn't have any oversight in that capacity.

Mr. Clarkson: Currently, oversight from an administrative perspective is provided through the Department of Agriculture for the activity. The Department of Finance has not been engaged in that activity.

Mr. Cullen: Yes, there's—you know, there's references here to the setting up the fund independently and reference to payments being made and interest being collected, so I'm kind of at a loss as to what type of oversight there might be. I wonder, maybe the auditor has—does the auditor investigate these types of situations or only if she's been asked to do something in that regard?

Ms. Bellringer: We sign the audit opinion on the financial statements. We would have access, so we would look into anything broader than the financial statements only when we either select it or if we're asked under a section 16 of our act.

Mr. Cullen: Okay, thanks. Well, we'll certainly stay tuned to see which minister is responsible and if there's going to be any changes to that particular legislation.

Mr. Chairperson: Just a moment, Mr. Cullen. So I think, Ms. Bellringer, then have you been asked to look at this particular instance?

Ms. Bellringer: No, we have not.

Mr. Chairperson: Okay. Thank you.

Mr. Cullen: Just getting into the auditor's report here and in terms of the summary deficit for 2012, I don't know if we'd look at the summary financials here. It's clearly the government missed its mark in 2012, and I'm really wondering about the oversight here. Like we—the budget was supposed to be \$438 million over budget, deficit budget. In actual fact that was just under a billion dollars in deficit. So I'm just wondering what type of oversight the deputy minister has, you know, in terms of that fairly large deficit. What's the process, then, that's involved in terms of the oversight there, and how could we miss the mark by that much?

Mr. Clarkson: In terms of the '11-12 fiscal year, as with any other year, there are changes that take place during the year in terms of the departments' expenditures and also revenues that the government collects.

On the expenditure side, those changes in expenditures that are above the authority levels within departments have to come forward through various processes to ministers for approval to undertake those expenditures.

In the '11-12 fiscal year that is where a large part of the flood, the emergency expenditures took place related to the flood costs. And so those had a significant impact on our ability to meet fiscal targets in that year.

Mr. Cullen: Yes, in this I'm referencing the auditor's report, page 23, where the auditor breaks down the deficit by category in terms of non-disaster and disaster. So I'm just wondering if the deputy minister would concur with the Auditor General that 43.5 per cent of the deficit was—is related to nondisaster, it's strictly a budget deficit not related to floods or any other disaster?

Mr. Clarkson: In terms of the summary statements that were presented in—for the budget for 2012, it's on page 74 there. There was a budgeted deficit of \$438 million that was reflected in the budget that the government that are presented at the time. And the changes that took place after that reflect some of the activities that are here and so, certainly, the

breakdown seems like a reasonable breakdown. I would have no questioning on these numbers at all.

Mr. Pedersen: I ask the deputy minister: the Town of Leaf Rapids was provided with a loan of \$500,000 during the fiscal year 2010 and then the government subsequently wrote it off—wrote off the loan receivable. And I'm wondering why you would put a loan out when you knew—obviously knew—that the town was not viable or—why would you use the process of a loan in the first place? Was there no other method of keeping the town alive?

Mr. Clarkson: Certainly, the Town of Leaf Rapids is suffering significant issues related to it. The decision to provide the loan was a government decision in the first place and going forward any issues related to the funding of Leaf Rapids and its continued viability would continue to be made at that level in terms of government decision [*inaudible*]

Mr. Pedersen: Well, what I'm wondering is, you did it not only once, but you did it twice. And I'm not arguing with the fact that you want to keep the town alive, but I'm wondering why you use a loan and then forgive the loan. Is that the only way to do it? Was there—was this an advantage to bookkeeping, or why the process of a loan?

Mr. Clarkson: The process that was selected was the one the government chose to use. I make no comment on why that process was selected.

Mr. Chairperson: It being 9 o'clock, and that was the original time set for the committee. What is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Okay, committee rise.

So thank you and now, before we go too far away here, before we rise, it would be appreciated if the members would leave behind any unused copies of reports so they can be collected and reused at the next meeting.

Thank you to the minister and the deputy minister and his staff for their patience in answering our questions and to the Auditor General and her staff for answering our questions as well. Also to the page and the clerks and all the staff we have here. And thank you to the committee for coming this evening and everyone that came to watch this event. So thank you.

Committee rise at 9 o'clock, I guess.

COMMITTEE ROSE AT: 9 p.m.

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