GETTING THE JOB DONE

BUDGET 2019

FISCALLY RESPONSIBLE OUTCOMES AND ECONOMIC GROWTH STRATEGY





Manitoba

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FISCALLY RESPONSIBLE OUTCOMES

FOREWORD – KEEPING MORE MONEY ON THE KITCHEN TABLE

On July 1, 2013, the previous government broke its promise to Manitobans when it increased the Provincial Sales Tax (PST) to 8%.

During the past election campaign, we promised to reduce the PST by 2020. We keep our promises.

Effective July 1, 2019, we are reducing the PST from 8% to 7%. We are keeping money on the kitchen table for Manitobans – in fact, this 12.5% reduction in the PST will keep an estimated $325 million on kitchen tables every year.

This is the largest tax cut in Manitoba history.

And the best part is that we are doing it while–at the same time as reducing the deficit and getting better outcomes for Manitobans.

It is estimated that this tax cut will create jobs – an estimated 950 person years of employment – and grow our economy by an estimated $97 million increase in GDP.

From the date of our tax cut until the end of our second term, our PST reduction will have saved the average four-person household over $3,000. That is a lot more money on the kitchen table.

There is significantly more detail on the benefits and positive impacts of our PST reduction noted later in this paper.

INTRODUCTION

We are proud to be presenting our fourth budget and continuing to deliver the progress and outcomes we have promised Manitobans.

Before building our budget, we continued our practice of extensive consultations across Manitoba:

- 119 Manitobans from 15 to 84 years of age have completed the online budget tool
- Over 1,900 Manitobans participated in an online survey that ran from October 15, 2018 to February 20, 2019. It focused on questions related to the Made-in-Manitoba Climate and Green Plan; Manitoba's fiscal situation; lower taxes; funding education and health care
- Hundreds of Manitobans attended the community consultations that were held across the province (in Selkirk, Brandon, Thompson, Dauphin and Winnipeg). Over 90 stakeholders and hundreds of Manitobans brought forward provincial and local priorities
- Over 100 pre-budget consultation meetings have taken place across the province
- A telephone town hall was held with over 11,000 Manitobans attending. Participants answered a number of polling questions throughout the telephone town hall

Since 2016, over 60,000 Manitobans have participated or provided input during the three pre-budget consultations. These consultations, combined with what we have learned over the past two years, have caused the way we think about government finances and administration to evolve.

Over the past two years, we have focused on improving our front-line services as we reduce wasteful spending. We continue to spend more on Health, Education and Training, and Families than when we came to government. We are making these investments more effectively, and bringing the spending growth rate down to levels Manitobans can sustain now, and for our children.

While continuing our focus on fiscal sustainability, Budget 2019 represents a transition for our government:

- We have delivered on our promise of reducing the PST
- We are increasing our focus on better outcomes for Manitobans who depend on our services. In the past, the previous government put great emphasis on activities and the amount of money being spent. The problem with that approach is that activities do not necessarily lead to better results. At the end of the day, Manitobans expect positive outcomes
- We will soon be announcing the adoption of balanced scorecards across all of government to keep us focused on better outcomes and publicly report on the results we achieve
- We are beginning our effort to improve how we manage all reporting organizations within the "Summary Budget", by providing for better financial controls and oversight, not only for the government departments that comprise only a third of our expenditures, but also to our Crown Corporations, health and child protection authorities, post-secondary institutions and other Manitoba public-sector organizations. Manitoba is the only province that still kept two sets of books
- We are also scrutinizing how government grants are spent everywhere in the system – understanding that Manitobans have expectations that provincial grants are used in effective and transparent ways, and that these organizations report their financial statements in the same manner as government

- We are increasing our emphasis on economic growth. We recently released a new economic development framework and have formed a new committee of cabinet to focus on ways to create the right conditions for entrepreneurs to invest and create wealth and jobs in Manitoba

With these improvements, we are achieving our goal of being the most improved province.

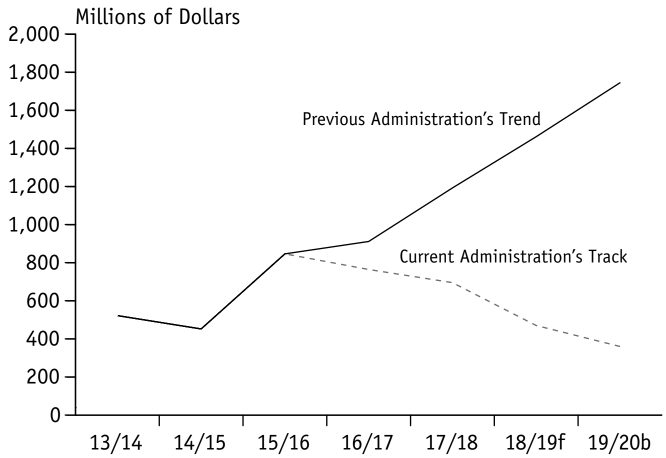
OUR FIRST THREE YEARS – BENDING THE COST CURVE

Bending the Cost Curve

As we are about to commence the 2019/20 fiscal year, we now have nearly three full fiscal years of experience as an elected government. When we formed government in 2016, there had been successive credit rating downgrades, debt had more than tripled, and annual interest costs for the whole of summary government (including Manitoba Hydro) were approaching almost $2 billion, all during a period of historically low interest rates. The province was in an unsustainable and dangerous position. It was imperative that we put our fiscal house in order.

Our first and most urgent priority was to bend the cost curve. Past spending patterns, if uncorrected, could have resulted in a summary deficit this year of at least $1.7 billion.

Summary Deficit, 2013/14–2019/20b



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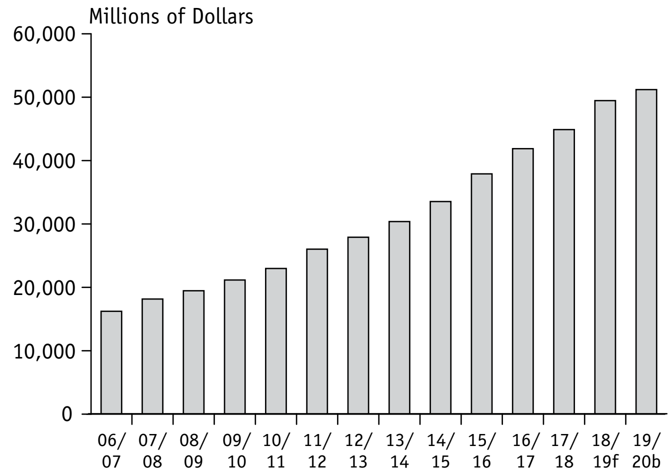
Source: Manitoba Finance

Borrowings, Guarantees and Obligations, 2006/07–2019/20b



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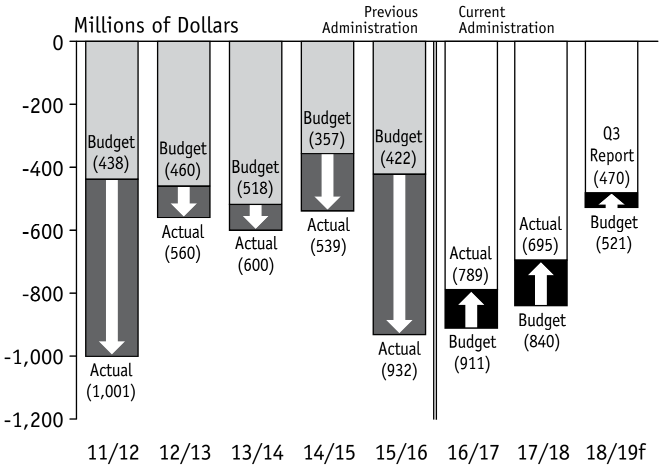
Source: Manitoba Finance

Measures taken by our government since 2016, compared to the financial trajectory of the previous government, have prevented nearly $3 billion of deficits, and that amount continues to grow. This would have had a disastrous impact on our credit rating, resulting in even higher borrowing costing millions of dollars.

Budget Plan vs Actual Budget,
2011/12–2018/19f



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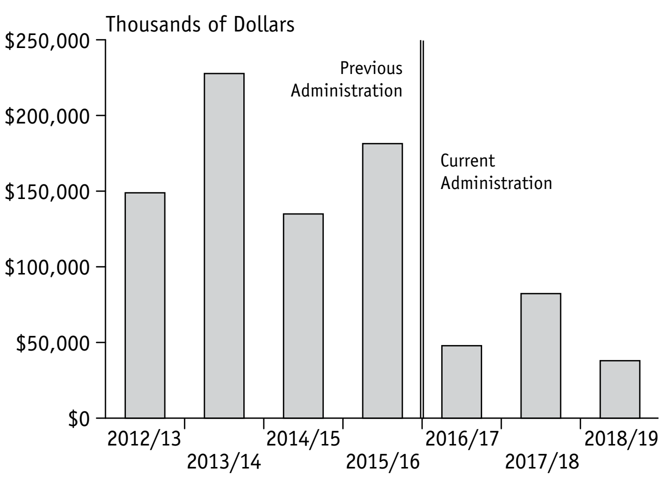
Source: Manitoba Finance

Special Warrants,
2012/13–2018/19



Source: Manitoba Finance

Our journey to fiscal recovery is well underway. In 2019/20, we have controlled the increase in our expenses to 0.3% on a budget-to-budget basis. This is the smallest increase in 20 years.

We are delivering on our plan to eliminate the deficit by the end of our second term. Budgets, in the absence of rigorous and systematic execution, are nothing more than wishful thinking. Discipline is needed to restore our credit ratings and sustain our front-line services. When we table a budget, we plan to meet that budget.

This financial discipline is reflected in the size of our "special warrants" – which is essentially a measure of the total over-expenditures of individual financial sub-appropriations. This year, the size of government's "special warrants" was at a record-breaking, 30-year low reflecting a broad-based financial discipline across all areas of government.

Our government has made meaningful progress to better manage the province's finances. The medium-term outlook for Manitoba's fiscal position is regarded by the credit and financial markets as positive, credible and encouraging:

"Deficits are now gradually falling, and the government's commitment to deficit reduction is increasingly credible."

DBRS – 2019 Canadian Provincial Government Outlook – November 20, 2018

"DBRS has observed a far greater focus on budgetary results, and the new government has outperformed its fiscal targets since coming to power."

DBRS – 2019 Canadian Provincial Government Outlook – November 20, 2018

"The province incorporates certain prudence measures in its annual budgets including forecasting economic growth, employment growth and unemployment rates in line with private sector consensus forecasts."

Moody's Investor Service – Credit Opinion–November 26, 2018

"Manitoba continues to make headway on reducing its fiscal deficits and has maintained its commitment to return to balance by fiscal 2024."

S&P Global Ratings – Ratings Direct – July 17, 2018

"Our assessment of the province's financial management is also supported by what we view as reliable revenue forecasts, prudent and risk-averse debt management and related policies, and effective cash management and cash-flow planning."

S&P Global Ratings – Ratings Direct – July 17, 2018

"Manitoba's debt burden rose quickly over the last decade with persistent deficit spending, but the pace of debt growth is now slowing with the province's efforts to reduce the deficit and scale back capital investment."

DBRS – Rating Report – June 12, 2018

Cleaning up the Mess

The road to fiscal recovery has not been without its share of surprises. There were assets remaining on our books that should not have been there. Adequate reserves did not exist with respect to outstanding litigation. The costs associated with years of bad decisions had been ignored. As part of Public Accounts 2017/18, we recognized a total of $170 million in extraordinary writedowns.

These writedowns – largely the clean-up of bad decisions made by the previous government–are part of our ongoing strategy to develop long-term, sustainable improvements to our finances. We are not looking for short cuts, nor turning a blind eye to real financial problems. For that reason, we expect we will need to recognize additional writedowns and establish contingencies as we gain a better appreciation of the serious fiscal issues left to us by the previous government – and we plan to do so while still meeting our financial targets.

In addition to these writedowns, we have discovered many instances where upgrades and maintenance of our buildings and infrastructure, including hospitals and schools, were irresponsibly delayed.

We are also taking steps to reduce the red tape associated with the settlement of litigation, and will adopt measures consistent with other Canadian provinces by not requiring cumbersome orders in council to allow the expeditious settlement of litigation supported by government lawyers, provided that prudent financial controls are adhered to. This will streamline our ability to clear liabilities off our books.

Contingency for Writedowns, 2017/18

	(Thousands of Dollars)
Accounts Receivable	2,573
Loans and Advances	31,590
Tangible Capital Assets	14,512
Liabilities for Contaminated Sites	21,834
Investors Group Field Loan Valuation Allowance	82,000
Other Items	17,934
Total	170,443

Sustainable Capital

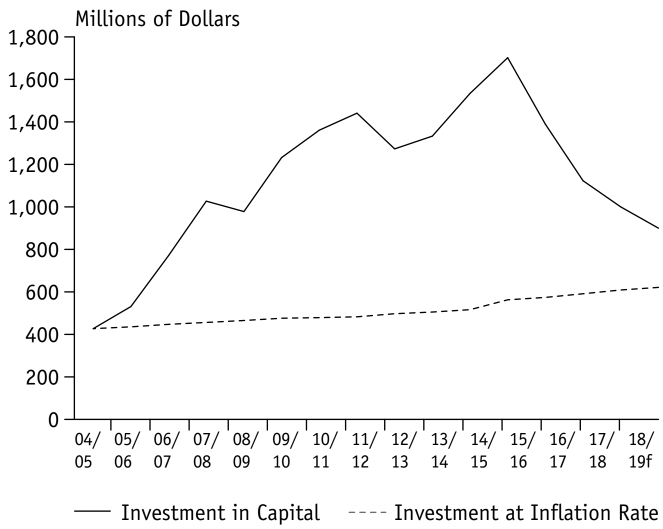
While the impact of years of sustained deficit spending is somewhat understood in Manitoba, the even greater impact of uncontrolled capital spending is less understood.

Prior to 2004/05, provincial capital spending levels were relatively flat, year-over-year. However, in fiscal 2004/05, Manitoba was required to adopt new Public Sector Accounting Board (PSAB) accounting rules that required the capitalization of asset categories such as land and improvements, transportation and dams and water management. Over the following decade, however, provincial capital spending quadrupled, growing far faster than the rate of inflation. The previous government had a culture of conspicuous pre-election spending–"raid, raid … parade!"–and nowhere was that more evident than in the area of capital spending where the new capitalization rules pushed the expenses of such projects to future generations.

Growth in capital spending at the rate of inflation would have resulted in only a 50 per cent increase over the same period, not the 400 per cent that actually occurred. Notably, none of this spending was tested for return on investment.

Total provincial capital spending reached its peak of unsustainability in the lead up to the 2016 provincial election, materially contributing to soaring debt levels and creating a wall of debt payments that will last a generation or more.

Actual Capital Investment vs Investment at Inflation Rate, 2004/05–2018/19f



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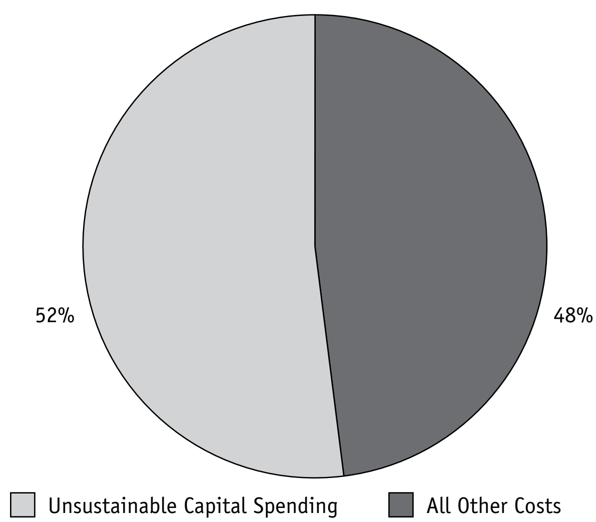
Source: Manitoba Finance

Unsustainable Capital Spending as a Share of Annual Deficit



Average of 2009/10–2017/18

Source: Manitoba Finance

The net effect of this unsustainable spending is that amortization, principal and interest charges from the incremental capital spending (above inflation) are now almost equal to that of our deficits.

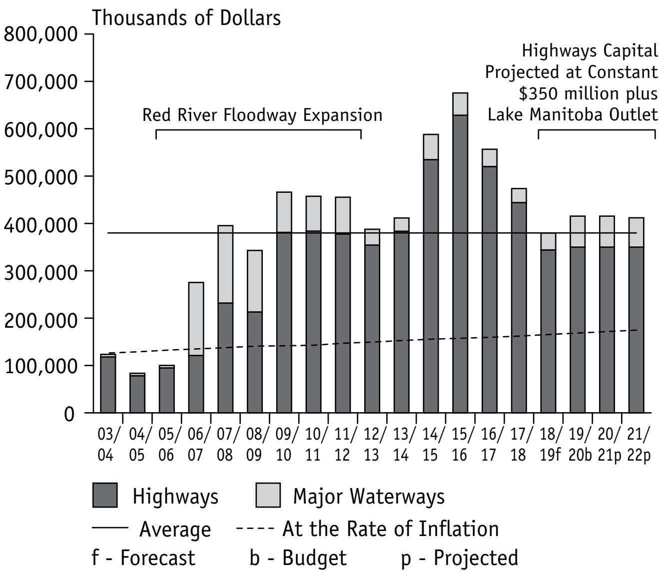
Recent decisions to bend the capital cost curve have resulted in infrastructure spending returning to sustainable levels – almost $1.5 billion in 2019/20. This is still well above our government's commitment to invest over $1 billion in strategic infrastructure.

Strategic Infrastructure

	2019/20 Budget	2018/19 Budget
Roads, Highways, Bridges and Flood Protection		
Highways Infrastructure and Airport Runway Capital	353	355
Maintenance and Preservation - Highways	125	136
Water Related Infrastructure	65	104
Transportation Equipment and Aircraft	14	17
Maintenance and Preservation - Water	11	12
Subtotal	568	624
Health, Education and Housing		
Health	255	319
Education	206	168
Housing	77	90
Subtotal	538	577
Other Provincial Infrastructure		
Municipal and Local Infrastructure	174	178
Public Service Buildings, Equipment and Technology	198	171
Parks, Cottage and Camping	10	12
Subtotal	382	361
Total Strategic Infrastructure	1,488	1,562

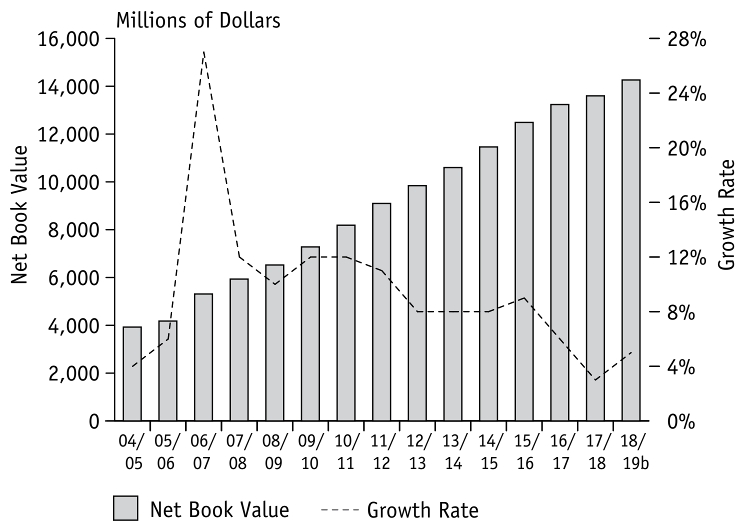
Through this process of adjusting our capital spending to a more sustainable level, we note that capital spending remains substantially above historical averages. For example, our capital spending on highways and major waterways is still above historical averages, and still well above the rate of inflation.

Capital Spending on Highways and Major Waterways,
2003/04–2021/22p



Source: Manitoba Finance

Tangible Capital Assets - Net Book Value,
2004/05–2018/19b



Source: Manitoba Finance

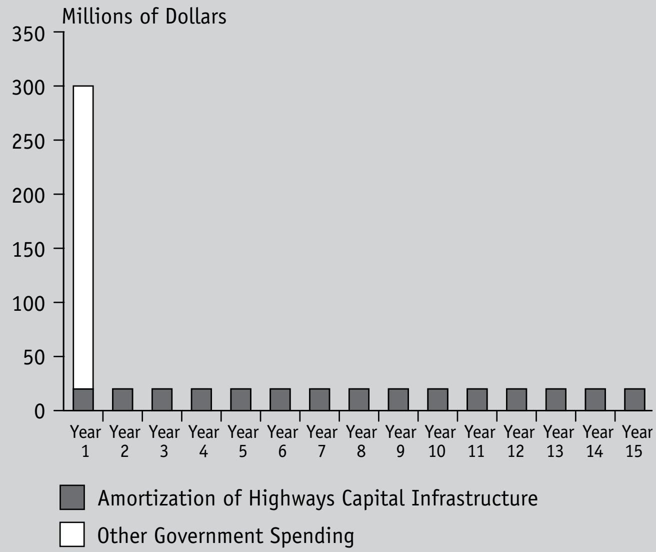
The fact that significant infrastructure investments continue to be made is evidenced in the continued growth of our tangible capital assets, a measure of the aggregate pool of investments still within their useful life. Between 2008/09 to 2016/17, the net book value of these assets was growing between 8% and 12% annually, significantly increasing the province’s debt servicing costs over this period. Our government continues to make the important investments, but at a sustainable pace.

Part of the reason for the unprecedented growth in capital spending up to 2015/16 was due to the adoption of new tangible capital asset accounting policies in fiscal 2004/05, which required that all capital spending over certain thresholds be amortized over the useful life of the asset.

That change in accounting policy resulted in only a portion of an asset’s cost being reflected as an annual expense. This in turn made the acquisition of capital relatively “cheaper” on an annual basis. However, the “buy-now, pay-later” incentive latent within the policy opened the door to a reckless pre-election increase in spending that resulted in significant growth in provincial debt and debt servicing costs, negatively impacting the province’s financial position going forward.

Nowhere is the “buy-now, pay-later” phenomena more apparent than in highway spending. Manitobans were misled by an “accounting sleight of hand” when the PST was increased, with a commitment to spending the additional revenue on infrastructure – taking advantage of the confusion between cash and accrual accounting.

Annual Spending Related to 1% PST Increase



Source: Manitoba Finance

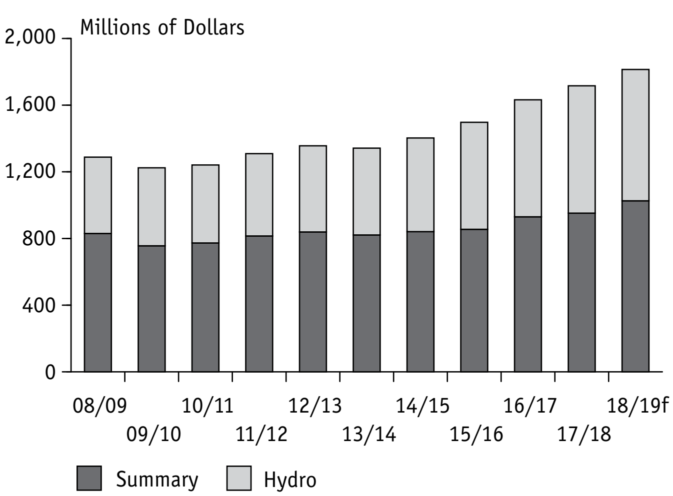
Using rough numbers for the sake of simplicity and illustration:

A one per cent increase in the PST yielded $300 million of incremental revenue. If the full $300 million is spent on highway infrastructure, assuming a 15-year amortization period for the sake of simple math, only $20 million is expensed annually. The expensing of amortization and interest continues for the following 14 years. In the meantime, the remaining $280 million of the $300 million in additional PST revenue was spent on other, unrelated and unsustainable initiatives.

The differences between cash accounting and the required public sector accounting standards are significant. It allowed Manitobans to be misled as to where the increased PST revenues were being spent.

The burden of the long tail of the amortization costs lasts a very, very long time – and the issue becomes compounded when the pace of infrastructure spending continues to grow unsustainably over time. Today, over two-thirds of the entire budget for Manitoba Infrastructure is amortization and interest – payment for past "announcements" that will stay on our books into future generations!

Debt Servicing Costs, 2008/09–2018/19f



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Source: Manitoba Finance

The debt incurred by this spending is very real, as is the cost to service this debt – diverting money away from other front-line services, now and into the future.

Disciplined infrastructure spending is a multi-year effort that is only now starting to take hold. Prior to last year, the province's approach to capital planning did not focus on return on investment or multi-year capital prioritization, but was much more ad hoc and decentralized.

Our government has developed new capital assessment tools in order to ensure more strategic decision-making. The Capital Project Prioritization Model is a value for money tool, based on leading practices in other jurisdictions. It was first applied in the 2018/19 Estimates and was used again, more rigorously and with the benefit of a year's experience, to analyze 2019/20 Capital.

Through the Capital Project Prioritization Model process, we are triaging capital projects based on materiality. Larger projects are now subject to even greater oversight and analysis. We are – for the first time – assuming greater central oversight over capital across more of summary government, starting with the major Crowns and Post-Secondary Institutions. Rigorous control over all capital spending, not just within government departments, is an essential step towards financial discipline.

These efforts are beginning to reverse the trend of unsustainable growth in infrastructure spending. Since its peak in 2015/16, annual provincial infrastructure spending is now returning to more sustainable levels needed to ensure sound investments in our assets without waste and for the right reasons. A return on investment analysis is being applied, and work is underway to reduce "soft costs". Our goal is to ensure better value for money from sustainable and predictable investments.

Workforce Sustainability

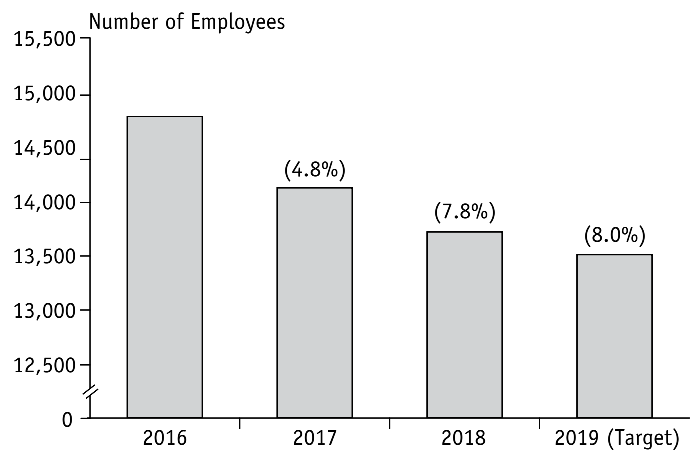
Across summary government, labour costs represent over $10 billion – our single largest expense. Our government is committed to achieving a sustainable workforce through a comprehensive strategy. We are committed to ensuring the cost of public sector salaries are sustainable. We are working to streamline collective bargaining in the health and education sectors by reducing the number of bargaining units. Our goal is to reduce duplication and improve efficiencies, so our front-line employees can focus on providing services.

We have also reduced core government management positions by over 15 per cent and have conducted a "spans and layers" review across government – essentially a check to ensure we have an appropriate balance of managers and front line workers.

Approximately eight per cent of the core public service turns over each year, primarily through retirements. This reality has enabled our government to reduce our labour costs in a gradual, orderly and sustainable manner. We are building a sustainable workforce and reducing duplication and overlap in programs and services across government.

As of March 31, 2018, the eight per cent milestone had been achieved by ten of thirteen departments – a full year ahead of schedule. But this does not mean that we are not refreshing the public service or hiring new people. In fact, since we assumed government in 2016, over 800 new civil servants have been hired by this government.

Employee Counts as of March 31



Percentage change below March 31, 2016 base year
Source: Manitoba Finance

Enhanced Cash Management Functions

Our government has dramatically improved cash management practices.

For example, for years the regional health authorities (RHAs) would finance their deficits through commercial lenders, instead of taking advantage of the much lower-cost borrowing power of the province. This practice cost taxpayers millions of dollars in unnecessary short-term borrowing costs every year. We have reversed this practice by requiring the RHAs to use the province as its primary lender. Indeed, once we instilled discipline into something as obvious as leveraging the province's lower cost of borrowing, we created $4 million of extra room in our health care system, which has afforded us the financial flexibility to help fund more hip, knee, joint and cataract procedures. We have redirected wasteful spending to achieve better results.

As another example, Manitoba Hydro, our largest Crown Corporation, has been subject to a limit of $500 million of promissory notes, an amount which has been unchanged since 1992. But Manitoba Hydro's liquidity needs are now much greater than they once were and, as a result, we are seeking to ensure Manitoba Hydro has access to the short term liquidity it needs to optimize its cash management functions, and save the future ratepayers money in the process.

Shopping Smarter – Procurement Reform

In the past, procurement has been decentralized and disjointed – we have not been smart shoppers. Many departments did their own procurement, sourcing without a "whole of government" approach. In some instances, departments did not even procure as a single entity. This is akin to buying a fleet of vehicles without asking for a bulk rate. We expect that recently announced procurement reforms will realize significant cost savings for taxpayers by planning purchases in advance and across the system and sourcing products and services on a "category" basis.

For example, all heavy construction requirements, regardless of whether in the Department of Infrastructure (e.g. highways) or Sustainable Development (e.g. roads in provincial parks) will be sourced together to maximize savings. Similarly, the procurement of vertical construction – whether new, to be renovated or upgraded (e.g. public schools, affordable housing, government-owned buildings), will also be combined in ways that ensure it is undertaken more effectively and coordinated across government. As an early example, our tendering of five new schools within a single process resulted in millions of dollars in savings, and our tender for cell phone services included the RHAs and several Crown Corporations – allowing even greater bulk purchasing savings.

Beginning next year, we will begin reporting on progress made in our effort to become smarter shoppers.

Better Financial Controls

Financial controls are the foundation of fiscal sustainability. Having central and consistent oversight as to how taxpayers' money gets spent is critical. The government's internal "rules" on financial procurement, known as the General Manual of Administration (GMA), is the detailed set of instructions that set out what spending requires approval and oversight at what levels in the organization, and in what circumstances. Our GMA has not been holistically revised in a generation. Even worse, it was inconsistently applied and a series of untrackable "exemptions" had been granted over several decades without being centrally stored or administered. In short, there was no ability to know how money was being spent.

Our government has addressed this problem by launching a comprehensive overhaul of the GMA and revoking all previous undocumented exemptions. We are about to launch our new GMA – it will be clear, user-friendly and modern and will ensure that financial controls exist wherever we need them across government entities.

Strategic Initiatives

Manitobans have the right to expect that services are being procured on a cost-effective basis and delivering the outcomes we expect. We have formed a central group to undertake comprehensive program reviews focused on outcomes. In some instances, we institute a program review and conclude that government has been highly effective in delivering the intended outcomes. When that happens, we share and leverage our learnings across government to find ways to replicate that success. In other cases, we learn that our programs are not as effective as they could be, in which case we identify solutions and implement the changes in order to achieve program effectiveness.

As an example, we conducted a review of Pineland Forest Nursery. We learned that we were the only jurisdiction still operating a government-owned nursery, and that most provinces had never been in the business or had since moved to private sector solutions. We also learned that we were paying well above the market rate for tree seedlings and, despite government paying that above-market price to itself, Pineland was running an annual deficit of about half a million dollars and had accumulated significant debt. Our government decided to procure seedlings from the private sector through a competitive Request for Proposals (RFP) process, which has yielded significant savings. We also ran an RFP process to find a new operator of the nursery – to see if the private sector could find a more impactful, higher value use of the facility. We recently announced the successful conclusion of the RFP, with a new operator assuming control of the facility with the expectation of even more local employment than when it was government operated. At the same time, all of the former employees were successfully redeployed in the public service – allowing this pivot to a lower cost private sector service delivery without any job losses.

As a second example, we undertook a program review of our government-run air services. We have a fleet of water bombers, planes and jets operated and maintained by government employees, which supplements private sector service provision. Our program review found that our existing services could be provided by the private sector in a safer, more reliable and less costly manner as is the case in most other provinces. We then commenced an RFP for wildfire suppression activities (water bombers), general transport and air ambulance (including emergency patient care). Through this process, we also learned that our existing procurement of private sector aviation services was piece-meal, lacking any specified safety standards and cost controls.

We have awarded the wildfire suppression activity to a proponent that operates the second largest fleet of water bombers in the world, on terms that will provide a safer, more reliable and more effective outcome than we previously achieved, while also realizing modest cost savings. We now also have the possibility of generating new revenues by allowing the water bombers to be used in other jurisdictions when it is not fire season in Manitoba. In addition we have awarded a contract providing transportation for our judicial system in Northern Manitoba, resulting in a far higher quality of service while at the same time saving the government millions of dollars.

We will continue to look for ways to do things better. Through this process, we will continue to be guided by evidence, not ideology. Similar to our previous evaluation of private-public-partnerships (P3s) to build new schools, the evidence led us to conclude that P3s were not the right solution for this particular project. We were able to leverage our learnings to reduce our own costs and build five schools for the price of four.

Election Expenses

When we came into government in 2016, Manitoba's political parties enjoyed the most lavish taxpayer funded subsidies in the country, consisting of a generous tax credit for contributions to political parties, a 'vote tax' in the form of an annual allowance to fund political party operations, and 50% rebates for election expenses including political campaign advertising.

In our first session as government we eliminated the vote tax, saving taxpayers $2.4 million over the course of our mandate.

We are continuing to right-size these subsidies for political parties in Budget 2019/20. Currently The Elections Financing Act encourages political parties and candidates to spend more than they have through the election expenses rebate program. In fact, the program makes it possible for political parties to raise $100 from Manitobans and magically turn that into a $125 payout from government (i.e. $75 tax credit to donor and a $50 rebate for the political party when they spend the $100 in an election). In the 2016 election, the election rebates alone amounted to $3 million in direct subsidies.

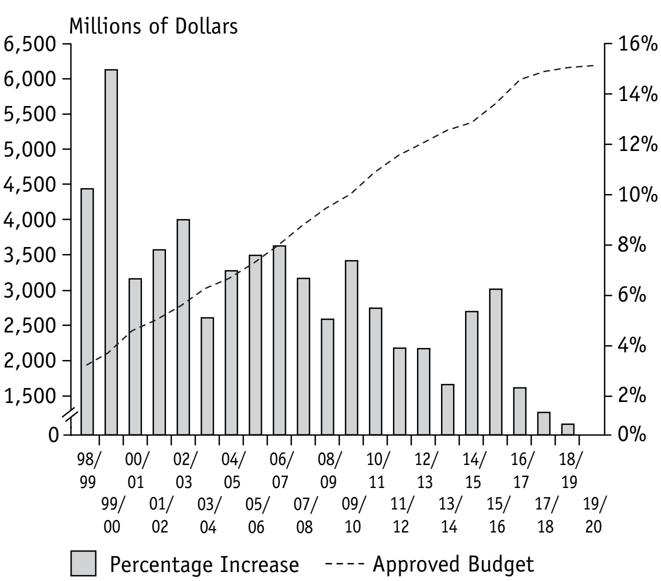
We believe political parties should be run like government – the rules should not encourage taking on debt and spending more than you have. The end result of that is charging future generations for today's bills.

Realistic Budget Assumptions

Ensuring that budgets are realistic and achievable is a high priority for our government. We have learned that certain budgetary lines historically suffered from a lack of realism and, as a result, poor financial execution followed thereafter. In Budget 2019, we are taking concrete steps to "reset" the budget to reflect more realistic assumptions – plans that we can actually deliver.

The following are four concrete examples of the changes we have made:

Health Voted Appropriation Trend, 1998/99–2019/20



Source: Manitoba Finance

Example #1 – Resetting the Health Budget

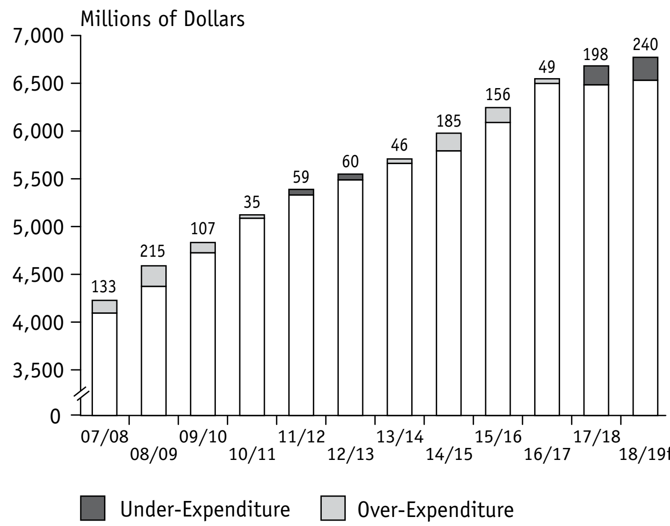
Our government has been at the forefront of health system reform. We inherited a system that had among the highest per capita health spending in the country, yet delivered among the worst outcomes. Following a long period of time where "amount of spending" was wrongly conflated with delivering positive outcomes, we set out to reform the health system to both deliver better outcomes and deliver the services in a more financially sustainable manner. Our work is showing signs of success. For example, emergency room wait times have been reduced, but at the same time we have slowed down the growth of Health spending to sustainable levels.

After a long period of health expenditures growing in excess of five per cent (in some years close to 15%), we are seeing the cost curve bend not only in our approved budgets, but also the amount by which the health budget is being over-spent. In fact, we are spending below budget, while achieving better outcomes.

As we embarked on our health transformation journey, there were several important "unknowns".

- The previous government did not invest in the financial tools and processes to allow the Department of Health, Seniors and Active Living to exercise a strong financial oversight role over the health sector reporting entities, including the regional health authorities and other entities. This reality was further complicated by the fact that the reporting entities used a different accounting standard than government. We discuss this in significantly more detail under "Journey to Summary Budgeting and Summary Outcomes".
- Simply put, money was not being spent efficiently. There are countless examples, including ineffective staff scheduling (driving unnecessary overtime costs), construction of conspicuous new buildings that were not needed, and having RHAs do their own borrowing from commercial lenders. We have been successful in our efforts to find ways to run the system more efficiently, without compromising health outcomes.

Health Summary Budget Over and Under Expenditure,
2007/08–2018/19f



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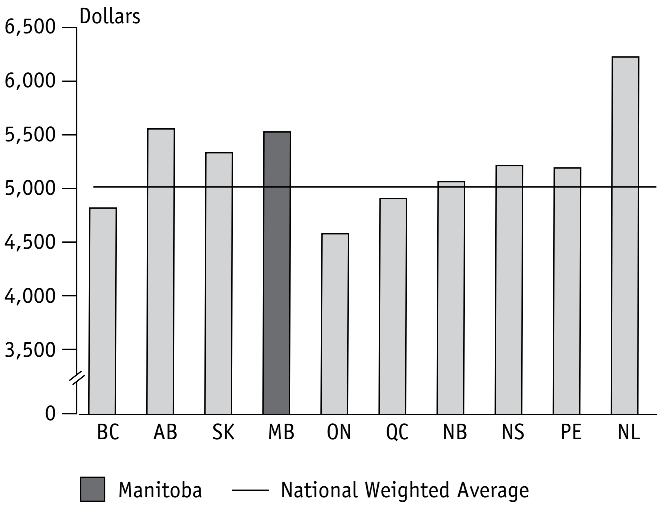
Source: Manitoba Health

- Manitoba had never undertaken health reform on this scale, meaning that we had no evidence that would assist us in estimating the financial impact it would have on our operating costs. Indeed, many of the reforms we have undertaken, such as the consolidation of our emergency rooms, were done for clinical reasons to obtain better medical outcomes, not financial reasons. We did not know the impact such reforms would have on our cost structure, as our initial focus was solely on improving services for patients.
- Previous governments never did a bottom-up review of the annual health expenditure. In the past, base budgets were built by taking the previous year's health "overspend", adding it to the base budget and then further increasing the budget by projected price and volume increases.
- Finally, as we undertake the conversion to a set of uniform, publicly-prescribed accounting standards, our ability to budget accurately has significantly improved.

We are now confident that previous summary budgeting assumptions were overstated. Too much reliance had been placed on historical growth rates to shape our summary budget. We are now in the position to "reset" our Health budget to more realistically reflect actual summary spending levels.

It is important to note, however, that Health remains our largest area of expenditure, and while growth rates have slowed, the overall budget continues to increase and Manitoba's per capita spending continues to be materially above the weighted national average.

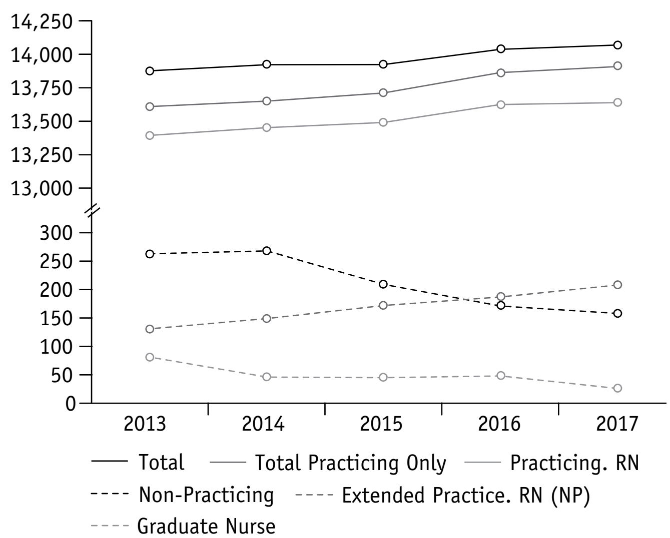
Public Health Care Spending Per Capita, 2018



Source: Canadian Institute for Health Information

The total number of nurses is also increasing:

Total Nurse Registrations, 2013–2017



Source: College of Registered Nurses

In addition, through this process, the number of doctors in Manitoba is actually increasing:

Number of Licensed Medical Practioners in Manitoba, 2009-2018

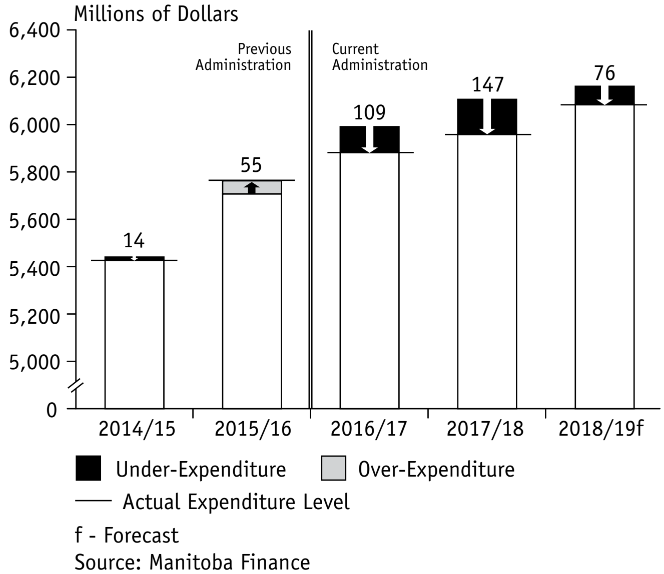
Year	Winnipeg	%	Outside Winnipeg	%	Total	Net Gain
2009	1,788	75.1	594	24.9	2,382	57
2010	1,839	77.1	576	22.9	2,415	33
2011	1,870	75.7	602	24.3	2,472	57
2012	1,931	76.1	607	23.9	2,538	66
2013	1,979	76.1	620	23.9	2,599	61
2014	2,055	76.6	627	23.4	2,682	83
2015	2,116	77.0	632	23.0	2,748	66
2016	2,122	76.7	646	23.3	2,768	20
2017	2,174	77.0	650	23.0	2,824	56
2018	2,215	76.3	687	23.7	2,902	78

The 2018 total of 2,902 includes 57 fully licensed residents.

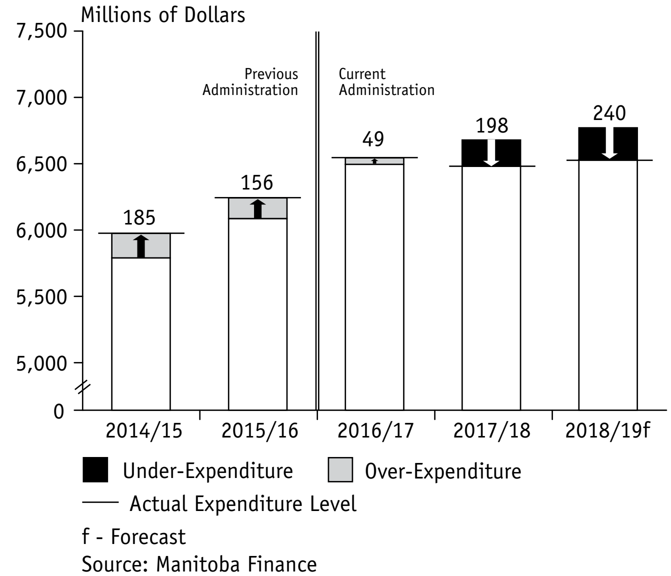
Source: The College of Physicians and Surgeons of Manitoba, 2018 Annual Report.

At the same time, notwithstanding this budget correction, we are still seeing the growth of both summary budget targets as well as growth in the voted appropriation.

Health Voted Appropriatons Over and Under Expenditures,
2014/15–2018/19f



Health Summary Over and Under Expenditures,
2014/15–2018/19f



These trends reflect the numbers used in Budget 2019/20. While we have reduced our year-over-year Summary Budget numbers by $(120) million, at the same time the Voted Appropriation (i.e. cash available for health expenses) is increasing by approximately $50 million year-over-year, including $20 million for the new addictions and mental health bilateral agreement.

Example #2 – Resetting Summary Education Budget

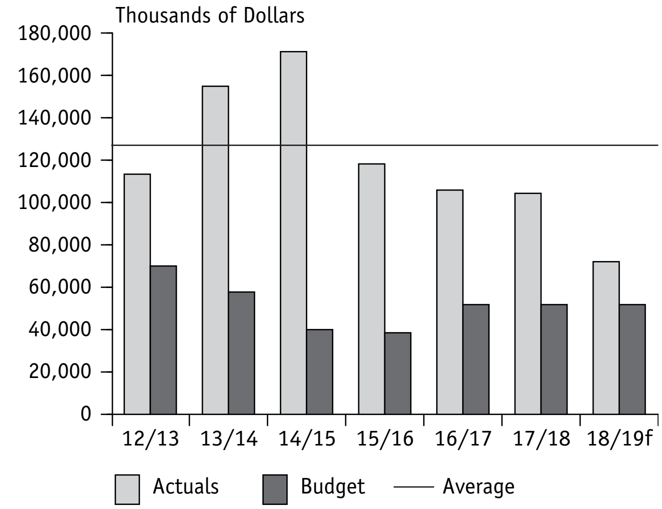
In a similar vein, our understanding of the summary education budget has been a work in progress. As was the case with the health sector, many of our education reporting entities did not use the same accounting standards as central government, and their budgets have been historically finalized after central government, which makes no sense. As a result, this year represents a “catch up year” to move the base budget to a level that is better-aligned with education spending under public sector accounting rules, and reflects the actual board-approved budgets of these institutions.

Example #3 – Resetting the Emergency Budget

The Emergency Expenditures budget was initially intended for situations where genuine emergencies occurred, like major forest fires or flooding. Over many years, however, the previous government increasingly put normal, recurring programming into this budget – with three consequences:

1. Normal course, annually-recurring programming, often intended to mitigate and manage typical natural events in Manitoba, was being improperly characterized as "emergency expenditures".
2. Costs were simply allowed to be whatever they were, with no departmental accountability.
3. The size of the base programming in these appropriations grew, but the budget line did not. As a result, this appropriation was regularly $75 million or more overspent. Every year a budget was printed without a realistic plan to meet the spending target.

Emergency Expenditures - Budget vs. Actuals, 2012/13–2018/19f



f – Forecast

Source: Manitoba Finance

For how many years must an appropriation be overspent by $75 million or more, before one should wonder whether the budget is set properly?

Budget 2019 addresses this problem. We have moved a large amount of "core, regular program delivery" into the Department of Sustainable Development (approximately $30 million) and a smaller amount into Manitoba Infrastructure. The departments will now be financially accountable for their own programs. We then developed a more realistic budget for the Emergency Expenditures Appropriation (after the transfers out), which will decrease the risk that we will need supplemental funding.

We also took steps to work with the private sector towards a more effective wildfire suppression program. Understanding that the early suppression of wildfires has a material impact on the overall cost of any given fire, the enhanced service levels and aircraft availability is expected to more effectively manage these costs into the future.

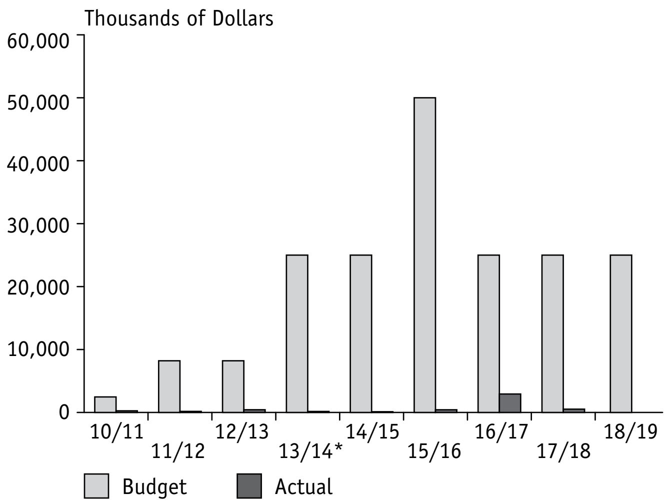
Example #4 – Resetting the Budget for the Sale of Surplus Government Assets

For years, the revenue line associated with the sale of assets was printed and assumed to be $25 million, without any plan to achieve that figure.

In reality, the situation was even worse than a lack of a plan. The central government organization – Crown Lands Property Agency (CLPA) – and the associated process to sell surplus Crown land and property was so unmanageable that nearly 90% of proposed transactions were not completed, and it often took more than five years for government to finally say "no". The system was designed to find ways to prevent the transfer of surplus assets, not facilitate it. Our government is taking strong steps to reform our real estate and land management services, amend the underlying legislation and update our internal policies to allow more surplus real estate to be sold or transferred, including those required to satisfy our commitment to Treaty Land Entitlements (TLE).

This year, we are not making any revenue assumptions in our budget. We are dedicating our time in 2019/20 to improving our internal processes and finding ways to "say yes" responsibly and transparently. We will introduce revenue targets for the sale of these assets once we are comfortable that we can reliably execute a plan to do so, and cleaning up our burdensome policies of legislation by moving the role into the Department of Finance in central government as the Real Estate Services Division.

Sale of Government Assets,
2010/11–2018/19



*Excludes: Sale of Teranet which was budgeted in 2012/13 but recorded in 2013/14.
Source: Manitoba Finance

Office of Auditor General Recommendations

This government has taken steps to address many of the important concerns raised by the Office of the Auditor General (OAG) over the past decade, including in this budget:

OAG Criticism	Government Action
1. Abandon core reporting or focus on summary reporting; stop reporting two bottom lines	✔
2. Proper Liabilities for Contaminated Sites	✔
3. Framework for fiscal responsibility and addressing long term debt and deficits	✔
4. Need for medium term and long term scenario analysis, demographic analysis and projections	✔
5. Setting fiscal targets and communicating results against targets	✔
6. More detail in budget reporting on deficit and debt reduction plans	✔
7. Augment summary reporting	✔
8. Better capital planning	✔
9. Amendments to the Public Sector Compensation Disclosure Act	✔
10. Publish long term forecasts	✔
11. Publish forecast sensitivities to GDP changes	✔
12. Publish tables to show sensitivity to interest rate changes	✔

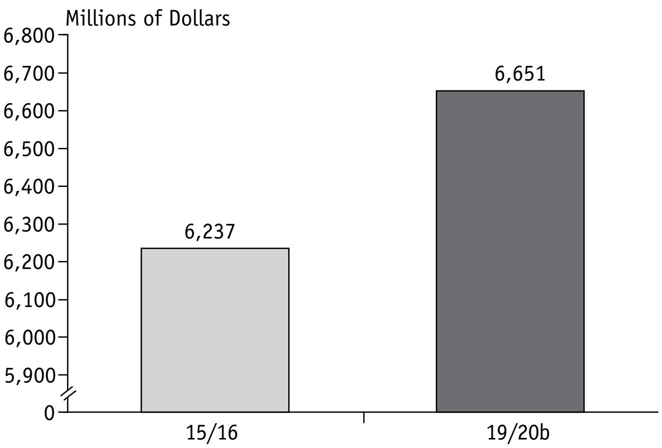
With respect to our recent difference of opinion with the OAG over the accounting treatment of Workers Compensation Board (WCB) in the 2017/18 Public Accounts, we have long believed that WCB is financially independent of government and that its financial assets do not belong to government. This is evident in both their financial and governance practices, which is why we adopted the same accounting treatment used by every other province in Canada, other than Saskatchewan. In Budget 2019, we are updating the WCB governance structure and financial processes to more accurately reflect longstanding current practices, such as having employer and labour organizations select their own candidates for board membership, and we trust this will resolve the matter.

INVESTING IN MANITOBANS' PRIORITIES

Greater Investments in Health, Families and Education

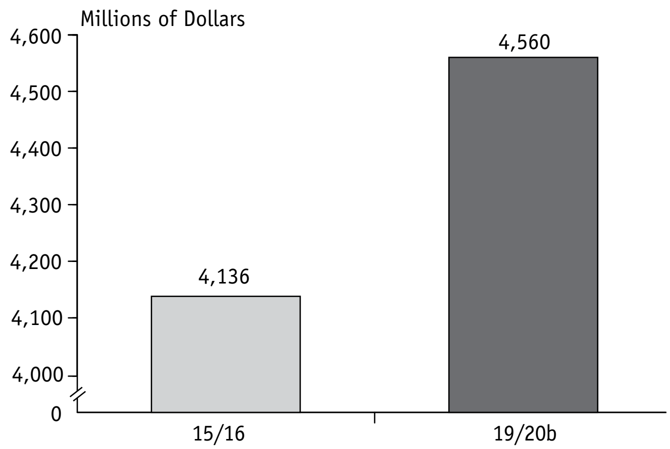
The areas of government that serve our most vulnerable citizens – Health, Families and Education – continue to experience large pressures for sustained growth. In these areas, there continue to be investments well in excess of when we formed government.

Health Expenditures,
2015/16 vs 2019/20b



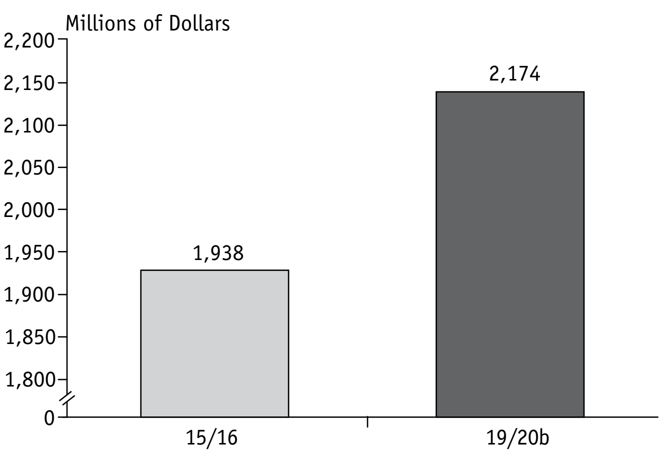
b – Budget
Source: Manitoba Finance

Education and Training Expenditures,
2015/16 vs 2019/20b



b – Budget
Source: Manitoba Finance

Families Expenditures,
2015/16 vs 2019/20b



b – Budget
Source: Manitoba Finance

Implementing a Better Model for Children in Care

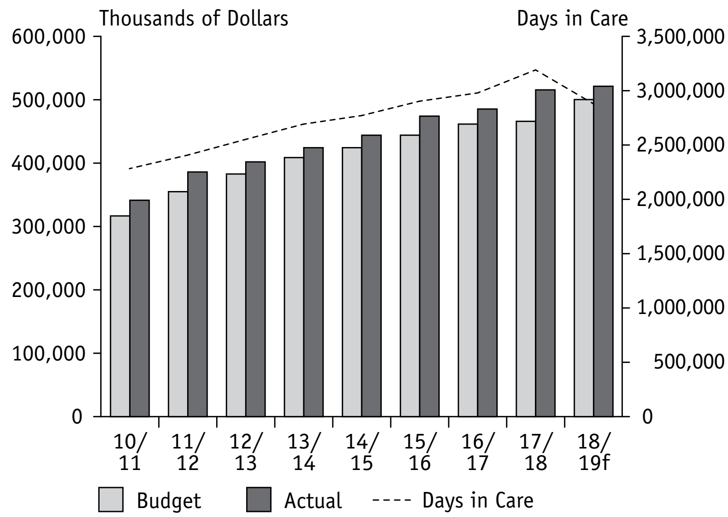
Expenditures for Child and Family Services (CFS) have grown at 6.1 per cent annually (almost $25 million) since 2010, driven primarily by the total number of days children spent in care, which grew by five per cent annually over the same period.

At its core, the system funding increased as more children were placed in care, and even more so when they were categorized as high needs children. The current model prevents caregivers from using Child Maintenance funding for prevention programming, even though prevention activities can result in better outcomes and fewer children in care. This old model is unsustainable, not only in its perverse incentives, but in its impacts on the many children who were placed in care, their families and their community.

Also under the current model, the CFS mandated agencies bill the province directly for child maintenance expenditure. This does not align with the Authority governance structure. This results in decision making for services independent from the budget and places additional administrative burdens on the agencies.

To address these problems with the current model, two key changes related to Child and Family Services funding will be implemented in 2019/20:

CFS Expenditure Growth and Number of Days in Care, 2010/11–2018/19f



f – Forecast
Source: Manitoba Families

1. Block Funding Model

Firstly, a new block funding pilot on child maintenance initiated in 2017/18 was expanded to eight participating agencies in 2018/19. Block funding will provide agencies with flexibility to better target their activities to address the diverse needs of children and families, including prevention and family preservation activities.

Block funded agencies had the flexibility to redirect child maintenance funds to develop and provide services that support positive outcomes for children and families. Early successes in block funding resulted in fewer apprehensions and children entering care, an ability to reallocate funding to prevention services and a reduction in administrative red tape. In addition, all agencies had a reduction in the average per diem cost, with five agencies generating savings that could be redirected toward prevention activities.

2. Children's Special Allowance

In 2005, the previous government required First Nations and Metis agencies providing mandated services off reserve to apply for the federal Children's Special Allowance (CSA) for provincially funded children. At the same time, a practice was adopted that had the effect of reducing provincial child maintenance funding by an equivalent amount. CSA is the equivalent of the Canada Child Benefit that is provided to a parent/legal guardian of a child under the age of 18. In 2011, the previous government re-developed the funding model for CFS Agencies, in collaboration with the Authorities and the Government of Canada. Under that revised model, the CSA continued to offset child maintenance funding provided by the province.

This approach to the CSA has for many years been a contentious issue with First Nations and Metis CFS agencies. Commencing in Budget 2019, CFS agencies will retain the CSA to support the needs of children in their care. Agencies will retain approximately $33 million in CSA funding, and Manitoba will no longer budget for the revenue or expenditures associated with the CSA. The net decrease of $(15) million printed in this year's budget for Child and Family Services is a result of Agencies no longer retaining the CSA, not a reduction in funding. The net impact will be neutral for CFS agencies and the province, but will significantly reduce red tape and resolve a long standing disagreement.

Budget 2019 includes other funding adjustments to support the Authorities' implementation of block funding, as well as an amendment to statutorily formalize the practice from 2005. Manitoba will provide all three components of CFS funding to the Authorities who in turn will allocate it among their agencies. All agencies will have the flexibility to use this funding to enhance prevention and reinvest any savings into areas of need.

These steps demonstrate our government's desire to turn the page and move forward with a new approach to funding focused on supporting families through prevention and reunification activities while also providing for the safety and security for children.

The Idea Fund

In April 2018, our government launched a new program – The Idea Fund – to identify efficiencies and generate savings within the public service and further advance work as part of Transforming the Public Service: A Strategy for Action.

Phase 1 of this initiative has already achieved positive results:

- Greater use of business plans, Return on Investment (ROI) based and evidence-based decision making
- Unlocking previously stalled ideas and plans
- Harnessing the creative talent and expertise of Manitoba's public front-line service providers
- Generating new approaches for public service transformation
- Providing capacity and examples for others in the civil service to follow

Over 60 projects have been approved to date, with almost $25 million allocated for active projects that are expected to generate over $50 million in savings over the next four years – an ROI of over 200%.

The Idea Fund recognizes that good ideas come from front-line public servants who can drive innovation and generate savings. This year, a total of $75 million will be available for transformation projects. This funding will allow The Idea Fund to expand into summary government, including the RHAs. As with the initial Idea Fund program, all projects must achieve a positive ROI, with a payback within four fiscal years.

Some examples of projects recently approved under the Idea Fund include:

Digitization projects:

- The claims adjusting application process for Manitoba Agricultural Services Corporation (MASC) will be digitized. Currently adjusters must visit clients at the farm to obtain a signature. Visits and costs will be reduced with the use of digital signatures
- Document processing for the Farmland School Tax Rebate Program will be digitized which will reduce costs for things like paper, postage and staff time
- Digitization of Records within the Real Estate Services Division

Aggregate Database Modernization

Creation of a modernized updated database inventory of known sand and gravel aggregate deposits for southern Manitoba using pre-existing modern and archival data. This modern geospatial database will provide a single source of aggregate data that can be used across government increasing the efficiency with which aggregate resources are located and extracted

E-Mental Health Support

Implementation of clinically proven online and telephone-based mental health programs to assist children, youth and families cope with and recover from mental health issues resulting in cost savings due to reductions in staff travel costs, reduced use of traditional therapy services and reduced wait times

Scheduling Optimization

Development of a shift scheduling system for correctional facilities to move away from the one in place now done in Excel workbooks by an administrative staff member at each of the facilities. This scheduling solution will also be utilized for Protective Services

Electronic Birth Registration

Vital Statistics – implementation of an electronic registration of birth events as an interim step prior to web-based registration of vital events. Currently, forms must be completed in hospital by parents at the time of birth

Webinars, Video Conferencing, etc:

- Automobile Injury Compensation Appeal Commission – New video conferencing abilities to improve access for claimants
- Manitoba Human Rights Commission – Webinar equipment to support delivery of more human rights education seminars remotely in the north to reduce travel and increase access to information
- Residential Tenancies Branch – use of video conferencing to improve access to hearings and mediation

Restorative Justice Centre (RJC) and Responsible Reintegration Initiative (RRI)

Equipping RJC and RRI staff with smartphones and iPads to allow staff who work primarily in the community with clients to access business related emails and review file information. The proposal also involves closing an existing RJC office

Student Aid

New digital platform to automate Confirmation of Enrollment for students

Automated Flagger Assistant Devices

The purchase and use of Automated Flagger Assistant Devices (AFAD) will reduce the number of flagpersons required in certain construction or maintenance work zones and increase safety of workers and motorists in work zones

Measuring Reforestation Success with drones

Two Unmanned Aerial Aircraft will be purchased to conduct aerial surveys on land that is being reforested. This will eliminate the costs and risks associated with accessing remote areas though traditional, more expensive, land survey methods (like helicopters)

Print Reduction

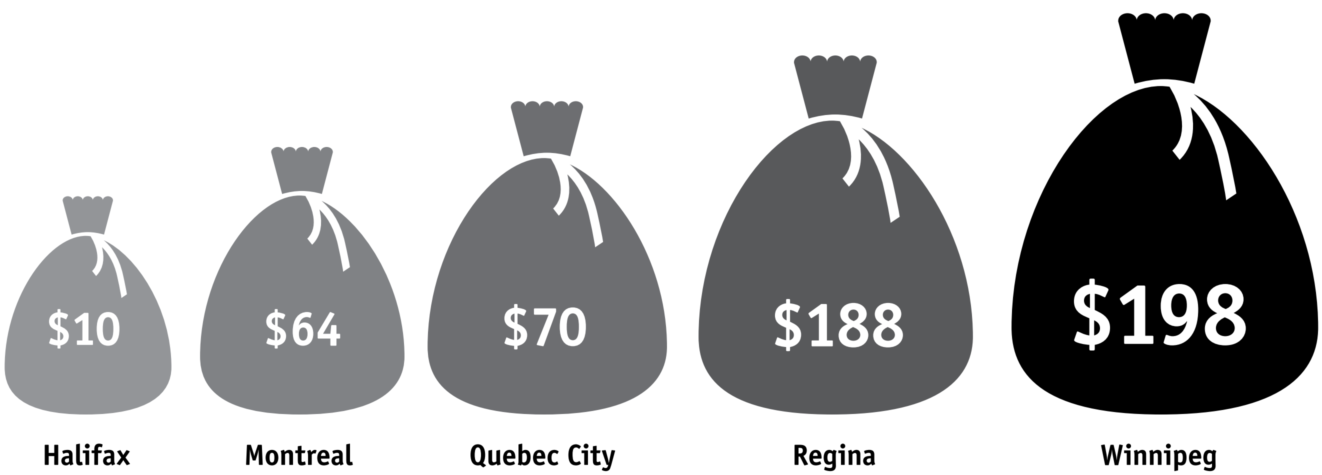
Software will be installed that will require staff to physically press a button on a printer to confirm a print job. This will avoid unwanted printed pages

Funding of Municipalities

Our government made a significant commitment to fund municipalities, and grants to municipalities represent a material expense for the province. Under the previous government, funding was complicated, flowed under many different individual "agreements", and was tied to many different programs and deliverables. It also exposed Manitoba to program costs that were growing far faster than the rate of inflation, without any levers to bend the cost curve of the program. Responding to the municipalities' request for "fair say", this government discontinued all of these separate funding agreements, and moved everything into a consolidated "basket". The basket for operating grants are issued without conditions. Municipalities have complete fair say and make their own decisions as to how to spend their grants (e.g., the City of Winnipeg can choose for itself whether to increase funding for public transit). The basket for public safety is not tied to specific programs, but is tied to expectations as to public safety outcomes. Finally, the basket for capital is developed based on shared priorities and value for money, maximizing federal funding opportunities. Manitoba will be working with municipalities to measure progress on outcomes for all basket funding, to ensure continued value for taxpayer investment.

Winnipeg leads the country in provincial unconditional grant funding compared to similar sized cities:

Provincial Unconditional Grant Funding Per Capita, 2017



Source: Manitoba Municipal Relations

At the same time, we recognize the reality that there is just one set of taxpayers in Manitoba who have a shared expectation of getting the job done. Manitobans expect their municipalities to:

- focus on cost management and value-for-money, and ensure that expenses are sustainable without increasing taxation
- practice clear and transparent budgeting that follow recognized accounting standards
- implement procurement activities that seek the best possible value for money
- ensure that charges for utilities reflect the underlying costs of these services, and that proper and prudent planning is being undertaken for future needs
- avoid unnecessary red tape
- develop clear and transparent governance structures
- put in place long term capital planning and reporting on outcomes
- streamline administration and focus operations on citizen-centered service

The province will continue to work to ensure that all municipalities deliver the same effective governance and financial reporting structures as we expect from ourselves.

TAX RELIEF

The Government of Manitoba does not have a revenue problem; it has a spending problem. Our government is working hard to return spending to sustainable levels. At the same time, we remain one of the highest-taxed provinces, with too little money left on the kitchen tables of Manitobans, posing a competitiveness and affordability challenge for households across nearly all income levels.

Economic growth requires a sensible tax foundation that will allow Manitobans to be successful. This is why we are reducing our PST rate from 8% to 7%, effective July 1, 2019. This tax cut is expected to save Manitobans over $325 million on an annualized basis, representing the largest tax cut in Manitoba history.

Reducing the retail sales tax to competitive levels is a powerful economic development tool. Reducing taxes on capital, in particular, encourages capital investments which in turn improves productivity and generates greater economic growth.

Estimated full-year benefits of the PST cut

	(Millions of Dollars)	
Relief for Individuals	176	54%
Relief for Business	133	41%
Relief for Government Sector	16	5%
	325	100%

Source: Manitoba Finance. Estimates are for the 2020/21 fiscal year, the first full year at the lower 7% rate.

Fiscal Impact – Households

There are approximately 500,000 households in Manitoba. The 1% PST reduction represents an average annual savings of approximately $350 per household. Although it disproportionately benefits lower income earners, the impact will be greatest on households with larger discretionary spending making major purchases such as a new house, car, or appliances. For example, the reduction of the sales tax rate will save $350 on a new $35,000 vehicle purchase, $10 on a $1,000 appliance purchase, and $1 on a $100 electronics purchase.

In addition to the direct savings to households, it is estimated that up to half of the business savings will also be passed on to households in Manitoba, benefiting the average family of four by an estimated additional $170 per year.

From the date of the tax cut until the end of our second term, this will have saved the average household over $2,000, and a four-person household over $3,000, in both direct and indirect savings.

Fiscal Impact – Business

The tax relief will be greatest on businesses that purchase equipment and building materials. For example, the reduction of the PST rate will save $100,000 on an investment of $10 million in new equipment by a business.

It is estimated that approximately $100 million or 75% of the $133 million total annual saving to business from the reduction of the PST rate will be realized by the construction, finance, insurance, real estate and leasing, transportation, business services and manufacturing sectors.

Household Level Savings
Direct

	Average Household*	Single Person	4-Person Household
2019	$171	$86	$239
2020	$349	$174	$488
2021	$356	$178	$498
2022	$363	$181	$508
2023	$370	$185	$518
2024	$378	$189	$529
	Cumulative		
2019	$171	$86	$239
2020	$520	$260	$728
2021	$876	$438	$1,226
2022	$1,239	$619	$1,734
2023	$1,609	$805	$2,253
2024	$1,987	$993	$2,781

* 2.5 persons

Amounts above have been rounded

Source: Manitoba Finance

Fiscal Impact – Governments

The three levels of government will benefit approximately $16 million annually from the PST reduction. Collectively, municipal governments will receive approximately $3 million in tax relief, including approximately $1.7 million in tax relief for the City of Winnipeg. The provincially funded entities (government departments, hospitals, universities) will pay approximately $9 million less in tax.

Economic Impact

In addition to making life more affordable for Manitobans, PST relief will increase economic output and assist in job creation. In particular, reducing the PST from 8 percent to 7 percent will grow the provincial nominal GDP by $97 million per year, while labour income, including wages and salaries, will increase by an estimated $47 million per year. The PST cut will also generate an estimated 950 person-years of employment growth.

Budget 2019 also confirms that Manitobans will not pay PST on the federal carbon tax, by putting in place a PST exemption for the federal carbon tax that is scheduled to be levied on natural gas and coal beginning on April 1, 2019. This measure will save Manitoba families and businesses an estimated $3.6 million, a similar exemption is not required for gasoline and diesel fuels as they are not subject to the Manitoba Retail Sales Tax.

Total Economic Impact Estimates (2020/21)

	(Millions of Dollars)
Total Sales Tax Savings	325
Nominal GDP	97
Additional Labour Income	47
Employment Growth (Person-Years)	950

Source: Manitoba Finance

Tax Competitiveness

Unlike other provinces, until 2016 the Manitoba personal income tax brackets and basic personal amount (BPA) were not keeping up with increases in the cost of living, resulting in Manitoba falling further behind other jurisdictions. In Budget 2016, we announced the annual indexation of the tax brackets and BPA to inflation by the Manitoba Consumer Price Index (CPI) beginning in the 2017 tax year. This measure ended “bracket creep” which had seen Manitoba rates and brackets falling further behind the cost of living each year, resulting in automatic increases in income tax rates for many Manitobans.

In 2018, indexing removed an estimated 1,740 Manitobans from the tax rolls and saved all residents more than $17.5 million annually. In 2019, indexing will remove an additional 3,810 Manitobans from the tax rolls for an additional annual savings of $38 million for all residents.

However, even with indexation, Manitoba continues to have some of the highest personal income tax rates in Canada west of Quebec. As indicated in the table, Manitoba leads nearly all other provinces on the amount of provincial tax payable across these income levels, which is particularly pronounced at low income levels.

Table includes the provincial basic personal amounts only.

2018 Provincial Income Tax Dollars

Gross Income	BC	AB	SK	MB	ON	QC	NB	PE	NS	NL
20,000	485	109	413	1,147	487	545	964	1,062	749	936
30,000	991	1,109	1,463	2,227	992	1,798	1,932	2,042	1,653	1,806
40,000	1,506	2,109	2,513	3,466	1,497	3,050	2,900	3,343	3,148	2,854
50,000	2,276	3,109	3,659	4,741	2,291	4,619	4,296	4,723	4,643	4,304
60,000	3,046	4,109	4,909	6,016	3,206	6,281	5,778	6,103	6,152	5,754
70,000	3,816	5,109	6,159	7,346	5,049	7,942	7,260	7,658	7,819	7,204
80,000	4,604	6,109	7,409	9,086	6,147	9,603	8,742	9,328	9,486	8,734
90,000	5,654	7,109	8,659	10,826	9,704	11,420	10,337	10,998	11,153	10,314
100,000	6,863	8,109	9,909	12,566	11,445	13,420	11,989	14,024	12,878	11,894
150,000	13,957	13,546	16,574	21,266	20,150	24,039	20,440	23,209	21,628	20,066
200,000	22,357	20,008	23,824	29,966	29,634	34,522	30,482	32,394	32,128	28,870

Our efforts to attract and retain new talent, such as health care professionals, who are often highly skilled and in demand across the country to Manitoba are hampered by the level of income tax at the middle and higher levels of income. Compared to Ontario and the western provinces, Manitoba's highest tax bracket begins at a much lower level of income. For example, a Manitoba resident who earns more than $70,610 in 2019 has a significantly higher marginal tax rate than someone in these provinces.

On business taxation, Manitoba's zero percent small business rate on income up to $500,000 per year is the lowest rate across the country. Manitoba's general corporate income tax rate is also competitive at 12 percent, compared to other provinces.

However, Manitoba is among only a few other provinces (in addition to B.C., Ontario, Newfoundland and Labrador, and Quebec) imposing a tax on the payroll of employees in a corporation, known as the Health and Post-Secondary Education Tax Levy in Manitoba. While this tax includes an exemption for annual payroll under $1.25 million, it is often cited by the business community as a disincentive to hiring.

Addressing these tax competitiveness issues is an important part of our commitment to improving the quality of life for Manitobans. Given the extent of the challenge, changes to the tax system need to be considered in the broader context of our goals of balanced budgets, fiscal integrity, and supporting our most vulnerable citizens while growing our economy and creating jobs. We believe that it is possible to both reduce the deficit and reduce taxes. It does not need to be "either-or". In fact, a strong Manitoba fiscal framework requires that we do both.

As announced in the 2018 Speech from the Throne, the oil and gas royalty and production tax is also being reviewed in order to ensure Manitoba's commodity sector is able to compete in a market where commodity prices are set globally and influenced by activities in many other countries and other provinces.

Personal Income Tax Brackets and Rates, 2019

Province	Top Bracket	Tax Rate
Manitoba	$70,610	17.40%
Saskatchewan	$129,214	14.50%
Alberta	$314,928	15.00%
British Columbia	$153,900	16.80%
Ontario	$220,000	20.53%

Provincial and Territorial Corporate Income Tax Rates, 2019

Province or Territory	Small Business Rate	General Rate
Manitoba	0.0%	12.0%
Alberta	2.0%	12.0%
Saskatchewan	2.0%	12.0%
British Columbia	2.0%	12.0%
Yukon	2.0%	12.0%
Newfoundland and Labrador	3.0%	15.0%
Nova Scotia	3.0%	16.0%
New Brunswick	2.5%	14.0%
Ontario	3.5%	11.5%
Nunavut	4.0%	12.0%
Northwest Territories	4.0%	11.5%
Prince Edward Island	3.5%	16.0%
Quebec	6.0%	11.6%

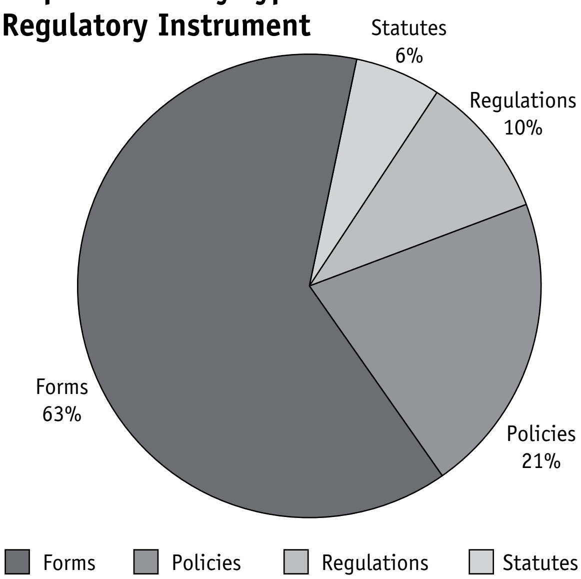
REDUCING RED TAPE

Creating an efficient, effective and transparent regulatory system is part of the government's plan to rebuild the provincial economy and repair the public services Manitobans rely on. To achieve this goal, the government is institutionalizing a governance framework to create real accountability for the rules and process it mandates municipalities, non-profits, businesses and individuals to follow.

Called regulatory requirements, these are the rules Manitobans must follow in order to access government programs or services, conduct business, or participate in regulated activities. In many cases, regulatory requirements can be more costly to organizations and individuals than a tax or a fee that is paid directly to government.

In June 2017, Manitoba passed The Regulatory Accountability Act, which created the most comprehensive framework in North America for managing regulatory requirements. Similar to government spending processes, the Act requires government to keep track of how many regulatory requirements exist and where they are located. A government-wide database system and new tools to estimate the costs to stakeholders and government of regulating, will support implementation of the Act.

Percentage of Total Regulatory Requirements by Type of Regulatory Instrument



Source: Manitoba Finance

A comprehensive baseline measurement conducted on April 1, 2016 revealed that Manitoba maintained 948,599 requirements in over 12,000 statutes, regulations, policies and forms.

After completing this inventory, government began a focused review to determine which of these requirements were overly prescriptive, poorly designed, redundant, contradictory or antiquated. As a consequence of this analysis, our government has already reduced the total number of regulatory requirements by 2.6 per cent, from 948,599 to 924,180.

We will continue to review existing regulatory requirements to eliminate those which add no economic, social or environmental value, while costing Manitobans millions of dollars. In the year ahead, several regulatory schemes have been identified for removal:

- We will repeal the unnecessary New Home Warranty Act. Changes in the housing market have eliminated the need for a costly new provincial regulatory system. This will reverse the implementation of over 250 new regulatory requirements that would have increased the cost of a new home by thousands of dollars.
- The Bedding and Other Upholstered or Stuffed Articles Regulation made under The Public Health Act will be eliminated as of January 1, 2020. Containing over 240 regulatory requirements and generating over $1.5 million in fees to government, this regulation duplicates federal regulations already in place. Repealing the regulation supports Manitoba's commitment to remove technical barriers to trade and meet our obligations under the Canadian Free Trade Agreement.

These actions are an example of ensuring regulatory requirements are justifiable and minimize the costs of compliance for stakeholders. By following these principles, government will help businesses, non-profits and local governments unlock significant time and money to invest in their customers, clients, and constituents rather than provincial forms. And that's the path to prosperity.

UNEXPECTED HEADWINDS

In addition to pressures for continued spending growth in key departments, our government inherited a series of undisclosed or understated financial issues from the former government, resulting in "unexpected headwinds" pushing against us on the road to fiscal balance. Some of these matters are discussed elsewhere in these papers, but examples include:

- **Public Safety Communications Service** – After the previous government spent years ignoring emergency communication services in Manitoba, our government announced that the outdated public safety communications service will be replaced, at an expected cost of $380 million.
- **Legislative Building Preservation** – The Manitoba Legislative Building belongs to all Manitobans. Many basic repairs have been ignored, such as preserving the structural integrity of the building. Constructed in 1913, it is suffering from decades of neglect, with deferred maintenance of well in excess of $150 million. Major and expensive repairs have been ignored, and there is a limited time to act in order to prevent this historic building from becoming permanently impaired. We will soon introduce legislation to ensure that the necessary repairs are completed.
- **Funds and Reserves** – Our government recently discovered that many of our so-called "reserves" and "funds" continue to exist only on paper, with only notional balances on their ledgers, because no money was ever set aside to spend for the specific purposes. We have identified more than 20 funds and reserves totalling over $90 million that are not actually "funds and reserves" in a way that an ordinary person would understand those words to mean, and we are working on plans to rectify this situation over time.
- **Poor Business Practices** – Far too often, the previous government entered into untendered contracts on questionable and inappropriate terms, as raised by the Auditor General on many occasions. We are taking steps to address those arrangements to save the taxpayers the cost of this inappropriate behaviour.
- **Forensic Audit Capacity** – Manitoba's taxpayers have an interest in the proper use of their tax dollars across all summary government. We understand that strong and pro-active forensic accounting is an important tool to not only drive accountability, but to signal that central government is monitoring expenditures and commitments. We have taken steps to bolster our Internal Audit team with external forensic auditors, who are in the process of investigating various allegations of financial impropriety affecting summary government.
- **Kitchen Tables under Pressure** – We view with concern the reluctance of federal and municipal governments, as well as school boards, to not undertake the same hard work as we are doing to find more effective ways to improve outcomes without spending more – but rather are seeking an easy way out by increasing the tax burden on Manitobans. This is not the approach we support as it leaves less money on the kitchen tables of Manitobans. We are doing our part to leave money on the kitchen table, we hope that others take steps to join us in supporting Manitobans.

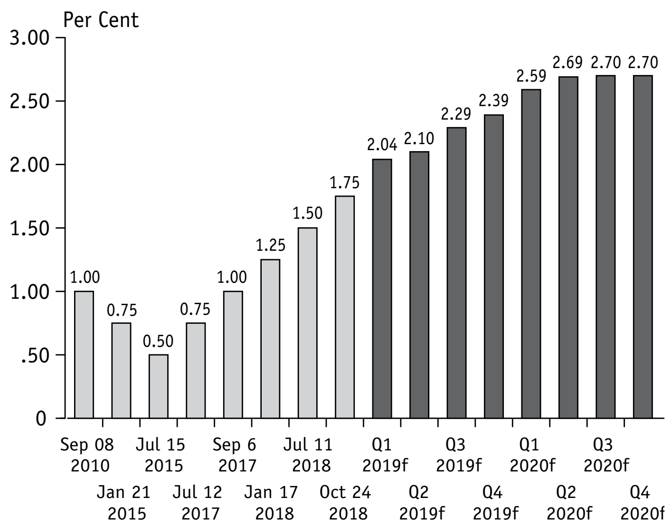
STORM CLOUDS

We have communicated frequently about the need to be prepared for significant economic challenges to our fiscal framework, including rising interest rates and disruption to trade. While we are proud of the progress we have made over the past three years, we continue to have large, unsustainable deficits and little financial flexibility to absorb financial shocks without putting our credit rating at further risk. This underscores the importance of restoring our financial health in order to be able to withstand any such future events.

Interest Rate Risks

Total borrowings, loan guarantees and other obligations increased significantly under the previous government, to a level of more than $50 billion. This puts significant stress on government finances, especially as interest rates rise. An increase of just one percentage point on total borrowing costs would increase Manitoba's borrowing costs by nearly one-half billion dollars, which would double our current projected deficit.

Bank of Canada Target Interest Rate Actual and Forecast,
September 2010–Fourth Quarter 2020f



f – Forecast
Sources: Bank of Canada and Manitoba Finance Survey of Economic Forecasts

The Bank of Canada has increased its benchmark interest rate five times over the past 18 months. Further increases are expected, with private sector census forecasts predicting an increase coming in every quarter over the next 21 months.

Trade Risks

Manitoba benefits greatly from free trade, both within Canada and internationally. Exports of goods and services to other countries represented 24 per cent of Manitoba's GDP in 2017. Of those exports, 64 per cent were shipped to the United States in 2017, while 10 per cent of exports were shipped to China. Within Canada, Manitoba exports of goods and services to other provinces comprised 27 per cent of Manitoba's GDP in 2017.

Risks, especially from growing protectionism, accompany the jobs and investment that free trade creates in Manitoba. Proof of that risk arose in 2018, when the United States imposed steel and aluminum tariffs on a number of countries, including Canada, which subsequently enacted its own retaliatory tariffs on a wide variety of US goods. These actions have disrupted the highly integrated supply chains throughout North America.

In addition to continued tariffs, there may also be difficulties ratifying the recently negotiated United States-Mexico-Canada Agreement (USMCA) in the United States due to a divided Congress, creating further uncertainty for Manitoba businesses. Other major trade disruptions expected to continue into 2019 include ongoing US-China trade disputes, Brexit negotiations between the United Kingdom and European Union, and a further weakening of World

Trade Organization institutions, which have previously provided stability and reduced risks for businesses operating in the global economy.

Manitoba will also be impacted by barriers to interprovincial trade. In response, Manitoba has taken a lead role in working to remove these barriers, grow the economy and create jobs across the country.

Finally, the issue of cross border tax competitiveness is particularly important for Manitoba businesses. In 2018, the U.S. implemented significant tax changes that have tilted the corporate tax advantage in Americans' favour.

Most notably, the U.S. federal corporate income tax rate has been reduced from 35 per cent to 21 per cent, and businesses are now allowed to fully expense certain capital investments.

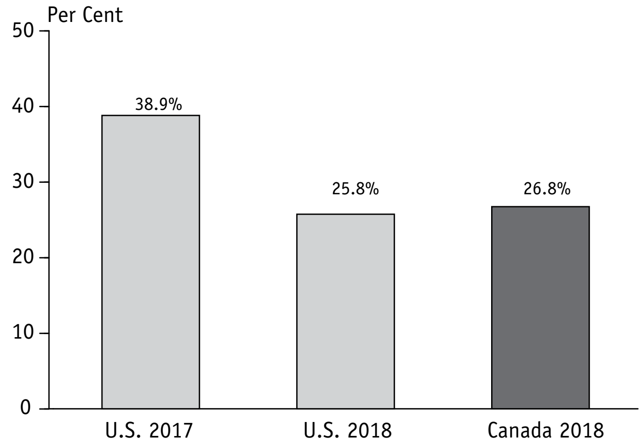
The resulting combined federal and state-level corporate income tax rates have been reduced from an estimated 38.9 per cent to 25.8 per cent, which is now below the combined Canadian and provincial rate of 26.8 per cent (or 27 per cent in Manitoba).

At the state-level, Manitoba's general corporate income tax rate of 12% is above those in key Midwestern states but remains competitive with its neighbours, even when combined with the new federal rates.

Notably, Manitoba's 0% small business tax rate on income up to $500,000 – the lowest rate in Canada – is highly competitive with neighbouring U.S. states, such as North Dakota, Wisconsin, Illinois, and Minnesota.

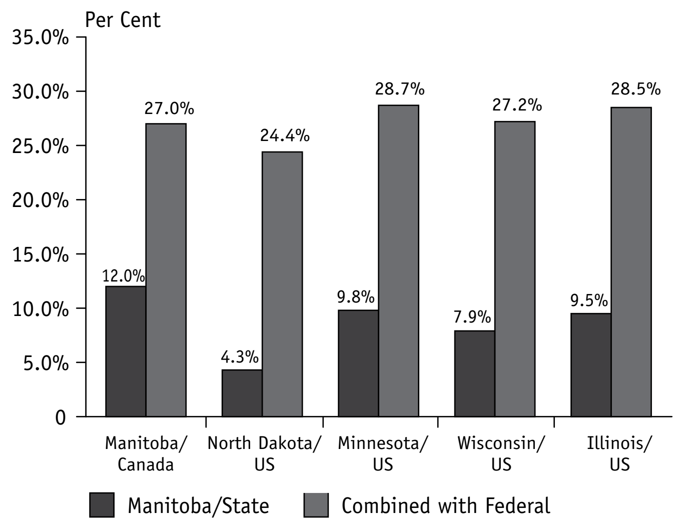
As a result of the U.S. tax cuts, the effective tax rate on new business investments in the U.S. has also been reduced from an estimated 29.8 per cent to 18.7 per cent, compared to 17 per cent in Canada. Businesses will often consider the effective tax rate which, in addition to the federal and provincial tax rates also include capital cost allowance deductions, sales tax offsets, and investment tax credits, among other features. In response to the U.S. measures, the Government of Canada announced measures in the fall of 2018 that accelerate the ability for Canadian businesses to expense certain investments. These actions are estimated to reduce the combined federal-provincial marginal effective tax rate on new business investments from 17% to 13.8%.

Corporate Income Tax Rates
Combined Canada, US and Provincial/State Rates



Source: Finance Canada

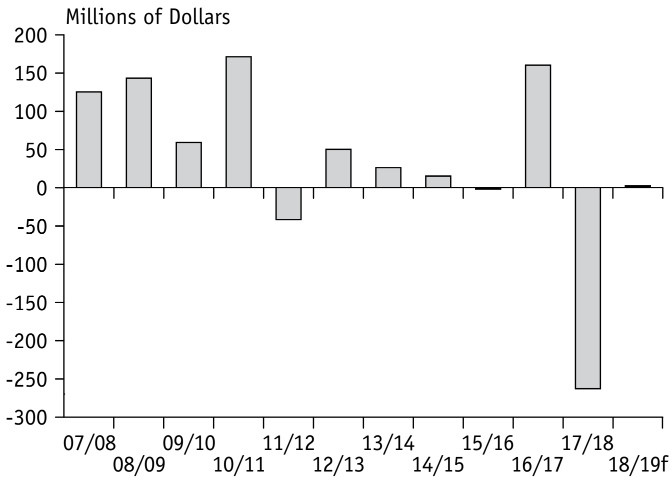
Corporate Income Tax Rates, Manitoba, Select U.S. States, and combined with Federal Rates



Source: Manitoba Finance

Although taxes are among many other considerations businesses make when deciding where to invest or operate, the magnitude of the U.S. tax reduction, even though temporary, is so significant that it alone may impact investment and other decisions, causing long-term harm to the Canadian economy.

Manitoba Personal Income Tax Revenue Variance Budget to Actual, 2007/08–2018/19f



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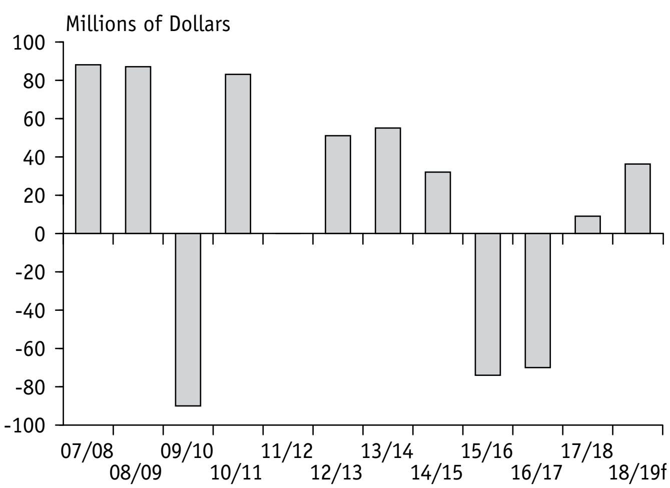
Source: Manitoba Finance

Manitoba Corporation Income Tax Revenue Variance Budget to Actual, 2007/08–2018/19f



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Source: Manitoba Finance

Income Tax and Other Revenue Volatility

Tax revenue volatility makes orderly budgeting a challenge, particularly when the volatility is not identified until after the fiscal year has ended. Personal income tax revenue, representing 22 per cent of total revenue, is projected to increase by approximately 8%. The growth is due in part to income recovering from the negative impact of the introduction of higher federal top income tax rate that resulted in income shifting between years, as documented in the 2017/18 public accounts. As shown in the graph, that federal policy change and the economic reaction generated the largest year-over-year fluctuation in Manitoba personal income tax revenue experienced over the past decade.

Corporate income tax revenue has declined, primarily due to tax measures announced in the federal government's Fall Economic Statement 2018. Those measures introduced accelerated capital cost allowance for manufacturers and others, automatically benefiting businesses in Manitoba by providing higher business write-offs from capital investments. While this will help improve the competitiveness of companies in Manitoba and countervail the business tax measures in the U.S., those tax savings will have a negative fiscal impact on Manitoba revenue. It will more than offset any growth in tax revenue from corporation profits.

Revenue variances can also be triggered by financial and economic market adjustments. For example, after the 2008 recession, companies utilized their losses to recover corporation income taxes paid in prior years through loss carry-back allowances. This resulted in a significant drop in Manitoba corporation income tax revenue in 2009/10 once tax data for 2009 was provided to the province.

The following table highlights some of the risks to the 2019/20 revenue forecast based on swings in underlying levels of economic activity.

Component	2019/20 Sensitivities
Total Revenue	$129 million for each percentage point change in Manitoba's nominal GDP growth
Canada Health Transfer	$39 million for each 0.1% point change in Manitoba's population share
Personal Income Tax	$36 million for each percentage point change in personal income
Corporation Income Tax	$27 million for each 0.1% point change in Manitoba's share on national corporation profits
Sales Tax Revenues	$24 million for a percentage point change in retail sales levels
Equalization	$19 million for each 0.1% point change in Manitoba's share of total Equalization program payment
Canada Social Transfer	$14 million for each 0.1% point change in Manitoba's population share
Land Transfer Tax	$6 million for every 500 new and used dwelling units changing ownership
Corporation Income Tax	$6 million for each percentage point change in the growth of national corporate profits
Health and Post-Secondary Education Tax Levy	$5 million for each percentage point change in growth in payroll
Fuel Taxes	$4 million change for each percentage point change in real GDP growth

Economic Growth

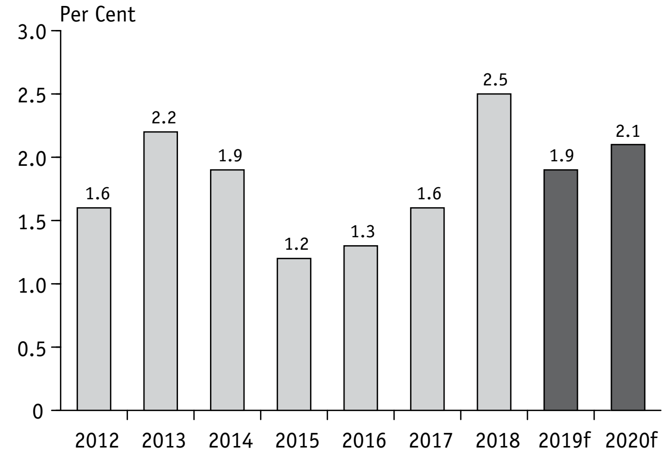
According to recent forecasts, Canadian and Manitoba rates of economic growth are expected to slow over time. Global trade wars and protectionist disputes are capable of adversely impacting the Manitoba economy. With an increasing number of baby boom generation workers exiting the labour market each year, growth is expected to remain relatively slow over the medium term forecast. Finally, federal delays in providing regulatory approval for critical infrastructure such as pipelines, high voltage electricity transmission lines and major flood protection projects is not only dampening economic potential for the future, but diminishing Canadian business reputation and goodwill.

Slower economic growth has broad implications for businesses and households, making it more difficult for governments to address fiscal challenges. As noted above, if growth in nominal GDP declines by 1.0 per cent relative to forecast, Manitoba government revenues will fall by approximately $129 million.

Inflation

Cost pressures are building as inflation moves towards its highest growth rate since 2011. This increase will increase operating and program costs, putting additional pressure on the Bank of Canada to increase interest rates.

Manitoba Consumer Price Index, 2012–2020f



f – Forecast
Sources: Statistics Canada and Manitoba Finance Survey of Economic Forecasts

Demographics

Increases in Manitoba's rate of population growth brings increased demands for government services. Steady population growth sustained through strong net migration levels and higher birth numbers has created some unique challenges:

- Manitoba has Canada's highest share of school-aged children (6 to 18);
- Manitoba has the highest share of youth (15 to 24);
- Manitoba has the highest share of college-aged individuals (18 to 24); and
- Manitoba has the third-highest share of pre-school aged children, and third-highest share of children aged two or under.

Federal Tax and Regulatory Changes

Manitoba's tax revenues can be materially influenced by unilateral changes to federal income tax, with often unpredictable effects. Our government received a stark reminder of that fact this past year. When the federal government increased the top personal income tax rate from 29 per cent to 33 per cent in the 2016 tax year, we witnessed significant activity in income shifting, which had a negative impact of nearly a quarter billion dollars on our revenues in fiscal 2017/18 — which was approximately a third of our forecasted deficit.

Recent federal tax changes are also expected to further affect provincial finances, notably:

- Unilateral federal changes to the taxation of private corporations are anticipated to have implications for provincial income tax revenues that will be better understood in late 2019 and early 2020, as personal and corporate income tax information becomes available.
- In the fall of 2018, the federal government accelerated the depreciation schedule for certain classes of capital assets as a way to counteract the U.S. government's tax reductions in 2018. While accelerated depreciation of capital investments is good for manufacturers in Manitoba, it is expected to cost the province up to $60 million in lower tax revenue in 2019/20.
- Although new federal housing regulations are aimed at regional housing markets in Ontario and British Columbia, they are having an impact in Manitoba as well by including a stress test on all insured mortgages and new rules for reporting primary residence capital gains exemptions. This issue is compounded by the application of "growth fees" by the City of Winnipeg.

- The federal government is imposing its carbon tax on Manitoba households and businesses beginning on April 1, 2019, with an escalating tax of up to $50 per tonne by 2022. Our Made-In-Manitoba Plan would have achieved better climate outcomes and at a lower cost than the federal approach. Stakeholders, including small and large businesses, have expressed serious concern that the federal carbon tax imposes new costs without providing meaningful ways to help them reduce their emissions. This in turn will impact Manitoba's economic performance and competitiveness beyond our borders.

Complex Federal Transfers Regime

The federal government provides funding to the provinces and territories through a number of funding arrangements, many of which are on a time-limited, cost-shared and/or conditional basis to support specific program areas. There are currently over 30 of these arrangements in place, amounting to just over $500 million to Manitoba in 2017/18, and representing around three per cent of the province's total summary revenues. While this money is an important contribution to our bottom line, targeted funds place constraints and cost pressures on the province, particularly in the case of cost-shared and time-limited arrangements. In addition, the number and complexity of these other arrangements often create significant administrative, tracking, and reporting obligations for the province.

Tackling today's complex issues requires coordination between the different levels of government. The most appropriate response and funding mechanism will vary depending on the circumstances. However, restrictions imposed on funding must be minimized so that the unique needs of Manitobans can be effectively addressed. Adequate, and ideally unconditional, federal government funding allows Manitoba to design and deliver programs and services based on the needs and priorities of its citizens.

Unfortunately, the federal government has chosen to apply a targeted approach to aspects of its support for the delivery of healthcare services. Rather than maintaining the 6 percent per year growth rate in the Canada Health Transfer, the federal government offered provinces and territories $11 billion over 10-years in targeted funding for home care ($6 billion) and mental health services ($5 billion). The result is a significant funding gap between what Manitoba will lose due to the lower Canada Health Transfer escalator ($2.25 billion over 10 years), and what it will receive through the targeted funding ($400 million over 10 years). In addition, the federal government has provided inadequate funding for Manitoba's indigenous communities.

Manitoba Hydro Earnings

Over the past decade, the previous government supported Manitoba Hydro to undertake a number of massive capital projects. While the Public Utilities Board (PUB) approved the Keeyask Generating Station and Manitoba-Minnesota Transmission Project, the Bipole III project was excluded from PUB review. Manitobans were erroneously led to believe that these projects would ensure a strong and stable future Manitoba Hydro. We have commissioned an expert report to review the validity of the business case for this expansion, determine if adequate oversights were in place to protect Manitobans and suggest improvements. The report will be released once it is completed.

The carrying costs associated with the new Keeyask generating station (finance, depreciation, capital tax, operating and administrative and water rentals) commence over the multiple in-service dates beginning in August 2021 through to August 2022. The 2023/24 fiscal year will be the first full year of the Keeyask generating station, with a material amount of carrying costs impacting net income. In addition, the Manitoba-Minnesota Transmission line is planned to be in-service in May 2020 with the U.S. portion of the line in-service in June 2020. The carrying costs of these facilities also impact net income. The total carrying costs of the generating station and associated transmission lines peaks in 2023/24 at approximately $700 million.

Keeyask Generating Station and Associated Transmission Lines
For the year ending March 31

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Millions of Dollars)										
Total Carrying Costs	16	24	32	39	133	323	617	704	698	692	682

Source: Manitoba Hydro

The carrying costs, while significant, could be offset by new revenue streams from increased generation capacity (notably, approximately $275 million in 2023/24 as a result of the additional generation production by Keeyask) as well as power sale arrangements with Minnesota Power (commencing 2020), Xcel Energy (enhanced commencing 2021), and SaskPower (commencing 2022).

Ultimately, future expected impact on Manitoba Hydro net income cannot be determined with accuracy given our inability to full know the expected new revenue streams, as well as the number of unpredictable variables that can materially impact net income including PUB rate increases, interest rates, weather conditions, domestic load growth, export prices and water levels .

By way of examples, on an annual basis:

- Water flow conditions can vary projected net income by approximately $400 million between the 10th and 90th percentile of net export revenues under the 105 years of historic flow conditions;
- Colder or warmer winter weather can vary projected net income by approximately $60 million;
- With interest rates 1% above or below that forecasted, net income could vary by approximately $30 million;
- Export prices higher or lower than used in budgetary assumptions can produce a variation of up to $50 million.

As such, the financial performance of Manitoba Hydro is one of the single largest risks to our ability to balance our budget.

FOCUS ON POSITIVE OUTCOMES AND EVIDENCE-BASED RESULTS

Context for Change: Measuring Government's Progress

Over the past three years, our government has worked toward the goal of making Manitoba Canada's most improved province. Achievement of this government-wide strategy requires a shift in approach that calls on provincial public servants to transform the way they work and their overall culture. This shift will empower public servants to become more innovative and more focused on outcomes as they deliver services for Manitobans.

To meet this challenge, we began work in 2017 on a strategic vision for the public service, encouraging our employees to embrace challenges and place innovation at the centre of their work to deliver positive outcomes for Manitobans.

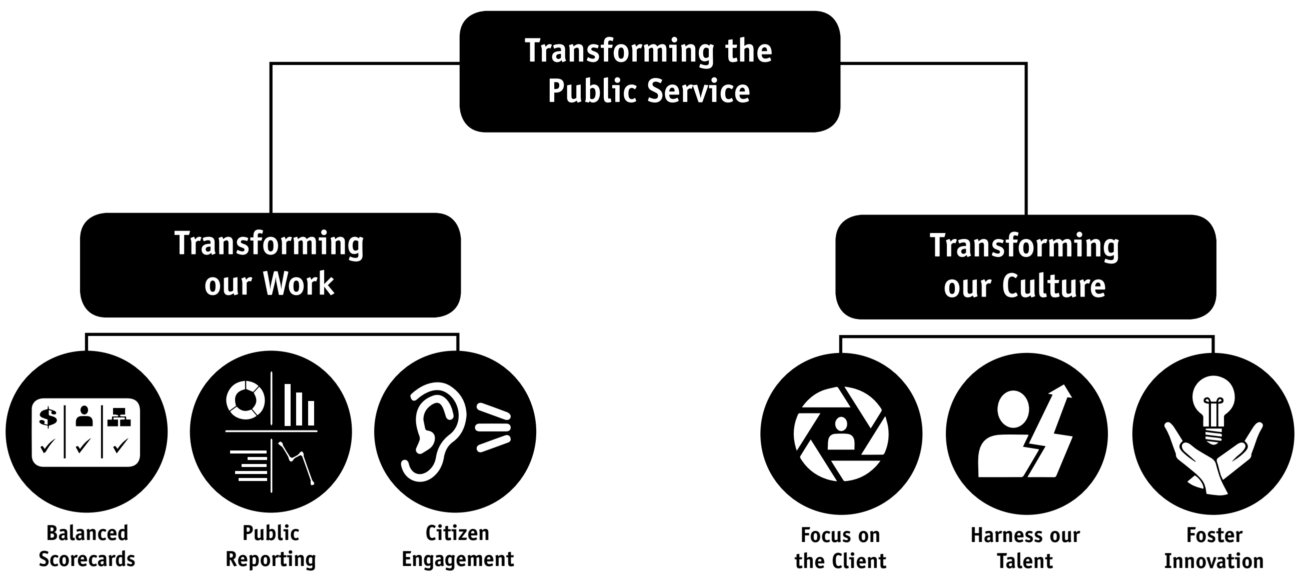
What is a Balanced Scorecard?

A scorecard is a business tool that shows what an organization wants to achieve–its broad priorities–and includes actions it needs to focus on in order to be successful. It also includes visual updates, such as the use of the colours red, yellow and green, to easily communicate progress made in each priority area. Red means 'off target', yellow means 'close to target', and green means 'on target'.

The 'balance' in a balanced scorecard refers to broadening traditional performance measures to not only include financial measures, but also includes customer, employee and process measures, which all play a part in helping an organization progress towards achieving its priorities.

Taking a whole-of-government approach, we developed a framework for action, entitled Transforming the Manitoba Public Service: A Strategy for Action. It focuses on two significant streams of work:

1. Focusing the work of the public service on outcomes through the implementation of performance measurement through balanced scorecards, public reporting and citizen engagement; and
2. Transforming the culture of the public service by focusing on the client, harnessing our talent, and fostering innovation.



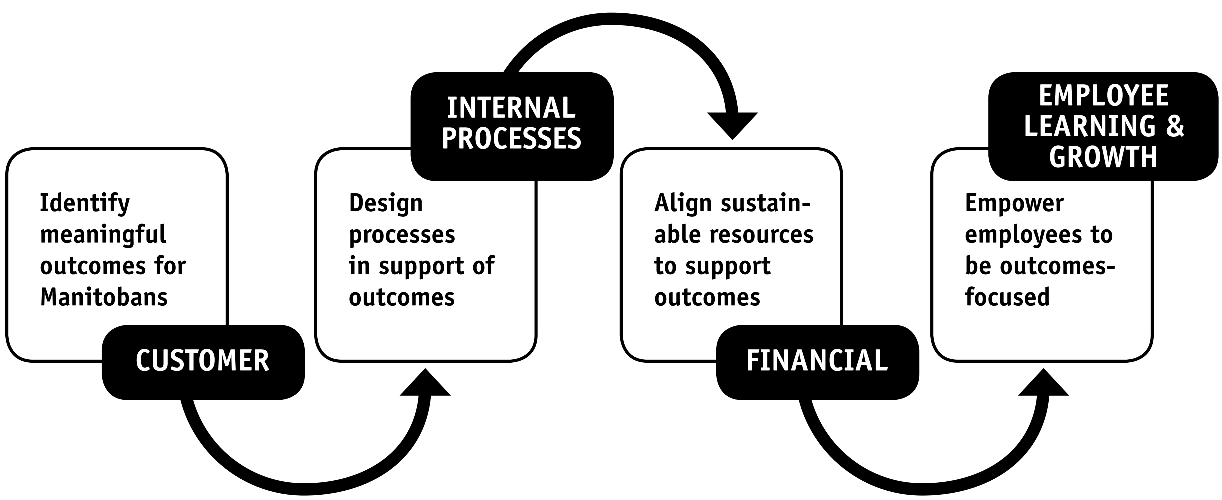
Why Performance Measurement Matters

The introduction of balanced scorecards, an evidence-based methodology to translate strategy into measurable actions, is key to transforming the work of the public service. By focusing on four key, inter-linked measurement areas–CUSTOMERS, INTERNAL PROCESSES, FINANCIAL, and EMPLOYEE LEARNING & GROWTH–scorecards will expand upon traditional performance measures to tell the full, balanced story on progress made towards achieving outcomes. Most importantly, it shifts the focus away from simplistic discussions of spending to important discussion on results.

For Manitoba to become Canada's most improved province, it must align government's priorities with the work of public servants. It means focusing our work-streams and metrics on:

- Quality of Life: Improving outcomes for Manitobans (CUSTOMERS)
- Working Smarter: Delivering citizen-centered services (INTERNAL PROCESSES)
- Value for Money: Protecting Manitoba's bottom line (FINANCIAL)
- Public Service: Fostering citizen-service excellence (EMPLOYEE LEARNING & GROWTH)

Performance measurement will be used within all departments. This evidence-based way of working will help us operate more efficiently and be more responsive to the needs of Manitobans.



Delivering on our Promises

We will be the first provincial government in Canada to use the balanced scorecard system across all departments, and will publicly report on our progress in achieving government-wide performance targets. Public updates posted on manitoba.ca will allow us to communicate our successes, and also identify where we have more work to do. It will allow for discussions and opportunities to co-create solutions together that will improve outcomes.

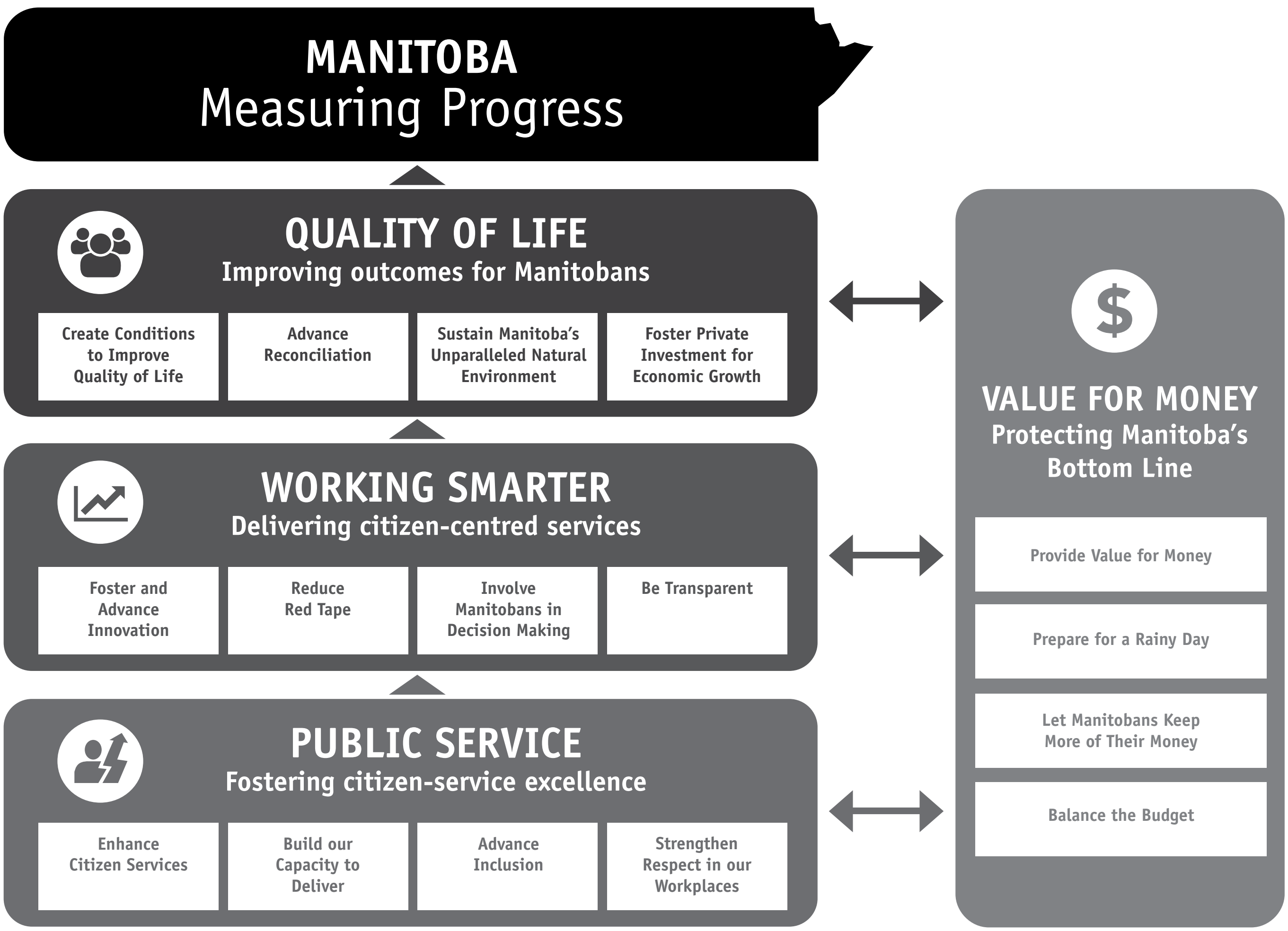
What's Coming Next

We are announcing our new balanced scorecard later this year.

After that, our next step will be to cascade government's overall priorities to each department by way of department-specific scorecards. Over time, each department will then further cascade additional scorecards to their respective divisions.

To aid in the rollout of balanced scorecards, departments will use new performance measurement software, which will modernize data entry, tracking and performance reporting.

By publicly sharing provincial-level performance measurement updates, we will create a better understanding for the public and among our employees of how public services, programs and policies affect outcomes.



The Learning Fund

Similar in concept to the Idea Fund, this year's budget devotes $2 million to a bottom-up training fund that is available to our public servants – particularly those on the front-line – to ensure that they have the skills, training and competencies needed to deliver better outcomes to Manitobans.

Safer Workplaces

We are taking strong steps to address harassment in the workplace. Through our "no wrong doors" approach and continued work to strengthen policies, procedures, and training, we are continuing our efforts to ensure all public servants feel safe and respected in their workplaces.

JOURNEY TO SUMMARY BUDGETING AND SUMMARY OUTCOMES

A frequent criticism by the Office of the Auditor General (OAG) over the past 15 years has been that Manitoba insisted on keeping two sets of books. In the past, we reported the following:

1. "Core" financials – an artificial construct that did not follow recognized accounting rules and reported on only the voted appropriations of government departments (an important financial measure), but then had a series of arbitrary allocations of other revenues and expenses. For example, assume central government transferred $1 billion to a Regional Health Authority (RHA). From a Core financial perspective, Health would show an expense line of $1 billion. However, if the RHA actually spent $1.2 billion, and simply borrowed $200 million from a bank, this expense would not be recognized in Core financials. The presentation of Core financials allowed for a misleading picture to be presented, as it omitted what is, in fact, an overwhelming majority of actual government operations.
2. "Summary" financials – an accounting standard in place across all Canadian provinces that represents a picture of all entities under government control, including huge entities like the RHAs, Crown Corporations, post secondary education, the various authorities in child and family services, public schools, etc. Continuing with the Health example above, under a Summary financial perspective you would record the full $1.2 billion as an expense, but you would also capture any income the RHA may have earned (for example from parking lots, restaurant concessions, etc.)

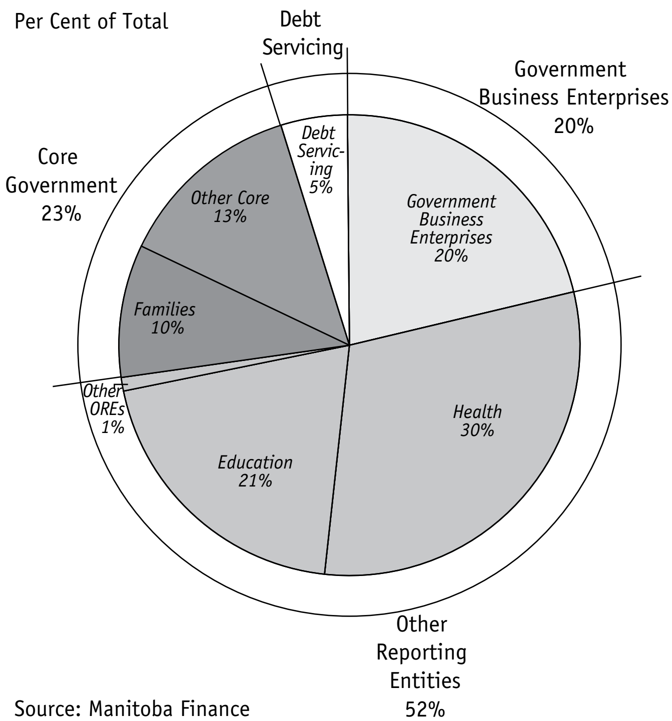
The OAG criticism of reporting both Core and Summary sets of books was justified. In 2004, when other provinces in Canada moved wholly to summary reporting, in Manitoba the previous government continued with its stubborn focus on Core.

We are now – very belatedly – taking the step of joining the other provinces and will discontinue Core deficit reporting.

Our past reliance on Core reporting had the effect of largely ignoring accountability for over 70 per cent of government expenditures and 70 per cent of infrastructure investments. Many organizations that all Manitobans recognize as part of their provincial government – Crown Corporations, Regional Health Authorities, Post-secondary institutions, to name a few – were subjected to little or no central scrutiny or understanding.

2019/20 Expenditures

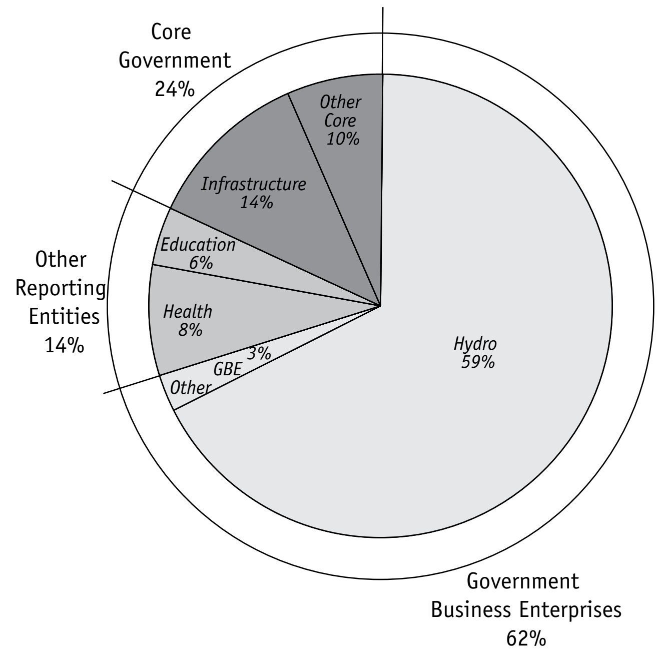
Per Cent of Total



Source: Manitoba Finance

2019/20 Capital

Per Cent of Total



Moving towards a summary, whole-of-government approach is a fundamental shift in how we develop and monitor budgets, and report on results. It requires government to develop the tools it needs to better control and influence summary financial outcomes. Some examples of the situations we are trying to improve:

- Investing in the skills of our central government public service to monitor and oversee the finances in central government
- Not all reporting entities in summary government and other grant recipients that receive material provincial funding use Public Sector Accounting Standards (PSAS). As a first principle, we need to be speaking the same language.
- Misaligned and uncoordinated budgeting and reporting cycles between many reporting entities and central government
- Inconsistent rules about central government oversight over entity budgets and investment in infrastructure or other capital projects
- The ability of reporting entities to independently borrow money, which often resulted in less rigorous financial oversight and a net loss to the system through unnecessarily higher borrowing costs and poorer cash management.
- Inconsistencies in transparency and financial disclosure
- Decentralized and uncoordinated procurement activities

Many of these steps should have been taken 15 years ago, so time is of the essence for us to learn how to plan and monitor budgets across all of summary government.

Armed with the strengthened financial oversight, we ensure accountability across public sector organizations like Crown Corporations, universities and colleges, school divisions, hospitals and personal care homes, and reinvest the savings into front line services.

FOCUS ON ECONOMIC GROWTH

Economic growth remains at the centre of our plan for a stronger, more prosperous Manitoba. Manitobans recognize that a stronger economy will allow for improvements in the services and programs most important to Manitoba families, while also repairing the state of the province's finances.

After the release of the Framework for Economic Alignment and Growth report by Deloitte in December 2017, PayWorks CEO Barb Gamey and Johnston Group President Dave Angus were appointed to lead an engagement process that consulted with over 500 representatives of business, industry, economic development organizations, academia and Indigenous organizations. The resulting report issued in December 2018, Growing Manitoba's Economy, made a number of recommendations related to drivers of economic growth and the processes through which economic development initiatives are delivered. Manitoba's Economic Growth Action Plan is responding to these recommendations through actions in the short, medium and long-term.

To set the foundation for success of the plan, we first established structures to better align government and non-government agencies in delivering economic development programming. These include:

- A new Economic Growth Committee of Cabinet to oversee a whole-of-government approach to growing the provincial economy;
- A new Manitoba Economic Development Office (EDO) to lead major initiatives and collaborate with regional and strategic partner organizations;
- Regional partner organizations to deliver targeted economic development programs and services in northern Manitoba, rural Manitoba, Winnipeg and the capital region; and
- Three strategic partner organizations to deliver programming related to innovation, trade and investment, and tourism.

Through the EDO, our government will work collaboratively with these partners to simplify program delivery and be more responsive to the needs of Manitobans.

Also responding to recommendations in both Deloitte's Framework for Economic Alignment and Growth, and the Growing Manitoba's Economy report, Manitoba is undertaking a government-wide review of economic development programs. The objective is to streamline programs and ensure their alignment with provincial goals. It is also working to identify opportunities for collaboration across departments and with other levels of government and agencies. Finally, we are reforming our programs so that commitments from taxpayers follow successful investments, rather than attempting to pick winners and losers.

By building on these initial actions, we will be able to refocus our resources on programs and services that will have the greatest economic impact, creating the greatest return on investment for Manitobans. Future phases will include:

- Development of sector strategies to identify new opportunities for growth and potential programming gaps; and
- Development of new programming to bridge gaps identified through the initial public engagement, as well as through the sectoral and regional strategies (Look North, Climate and Green Plan, Rural Economic Development, Provincial Tourism Strategy).

Future phases will include periodic reviews to assess the outcomes achieved by new initiatives. This ongoing feedback process, combined with stakeholder and partner input, will provide opportunities to refine programs and initiatives to ensure alignment and adapt to new economic circumstances as they arise.

Over the past decade, the economic importance of Manitoba's cultural and creative industries has accelerated. Statistics Canada reports that in 2016, our cultural industries accounted for $1.6 billion in GDP across the Manitoba economy, generating more than 22,500 arts and culture jobs, or 3.43 per cent of all jobs in the province.

Our creative industries fuel innovation, serve as a magnet for commerce and trade, attract investment, and make Manitoba a better place to live, work and do business. In the creative industries, globalization and transformative digital technologies have given birth to new business models, new distribution channels, revolutionary marketing methods, and vastly-expanded consumer choice and access.

These developments have expanded commercial opportunities. Manitoba's media production industry, for example, is growing rapidly in response to new demand for creative content. Last year, Manitoba hosted 68 film, television and web-based productions that generated $173.3 million in production activity. In 2018/19, production volumes are expected to approach $250 million, accompanied by a proportionately greater spending on labour and services.

As a priority segment of the economy, our creative industries are marked by solid competitive advantages and strong job creation potential. Economists have noted the growing importance of creativity across all segments of the economy, noting how they enhance opportunities for widespread gains in industry segments outside the creative industries themselves. The creative sector has traction in the long-term, our talent base is extremely healthy and our government has a successful track record of partnership with these industries.

Building on these new and strengthened partnerships, the review of Manitoba's tax credits continued in 2018/19, focused on cultural tax credits. Budget 2018 established an industry-working group that partnered with government to evaluate the effectiveness and results realized by the Manitoba Film and Video Production Tax Credit. Recognizing the positive impact that the film and video production sector has on our economy and creative community, our government recently announced the removal of the expiration date for this credit. Budget 2019 also announces extensions to the Book Publishing Tax Credit and the Cultural Industries Printing Tax Credit, recognizing the economic and cultural value that these industries provide.

The number of commercial and industrial construction projects that were announced and underway have led to private sector capital spending rebounding in 2017 to $4.4 billion after two consecutive years of decline. In 2018, Manitoba was bucking the national trend and is expected to lead all provinces in private sector capital spending growth, at 6.5 percent or $4.7 billion.

Manitoba is seeing positive economic growth in the food processing sector. Highlights of recent large and medium-scale projects include the following:

- HyLife Foods broadening its hog processing capacity in Neepawa ($176 million investment);
- MDI Holdings Corp. opening a new state-of-the-art dairy processing facility in Winnipeg ($100 million);
- J.R. Simplot doubling its processing capacity for frozen French fries and farmed potatoes near Portage la Prairie ($460 million);
- Roquette Canada constructing the world's largest pea processing facility in Portage la Prairie ($400 million);
- McCain Foods upgrading their potato processing plants in Carberry and Portage la Prairie ($75 million); and
- Maple Leaf Foods expanding to increase their production capacity in the province ($35 million).

These facilities, with total planned investments of over $1.2 billion, not only broaden processing of raw commodities within Manitoba, but also open up new opportunities for more value-added farm diversification and employment, particularly in rural areas.

Tax Increment Financing

We have also seen great success in our newly-reformed Tax Increment Financing (TIF) program. TIF is a tool governments use to encourage economic development, by using future incremental tax revenue generated on large property development projects. Manitoba's new TIF Framework will strengthen Manitoba's ability to stimulate private-sector investment, maximize return on investment for Manitobans and increase inter-governmental collaboration with municipalities in support of Manitoba's Economic Growth Action Plan. In 2018, TIF supported True North Square, Hylife Foods, and Simplot. Those three projects account for $1.2 billion in private sector capital investment, support Manitoba's construction and food processing industries, and will create more than 250 new jobs in rural Manitoba.

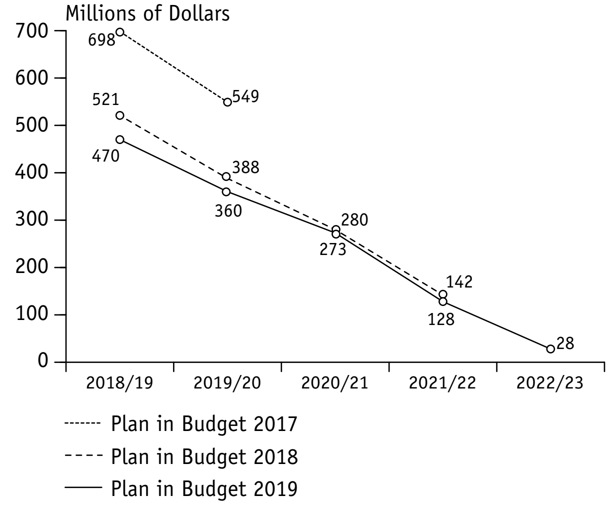
Project	Location	Private Sector Investment
		(Millions of Dollars)
True North Square	Winnipeg Sport and Entertainment District	550
Hylife Foods	Neepawa and Killarney	176
Simplot	Portage la Prairie	460
Total		1,186

OUR REVISED LONG TERM FINANCIAL TARGETS

Three Year Financial Forecast

We continue to show steady progress on deficit reduction, while at the same time investing in the priorities of Manitobans. Over the past two budgets, we have been able to revise our deficit reduction projections, showing a new and improved "trajectory" towards balancing the budget.

Manitoba Summary Budget Deficit, 2018/19–2022/23

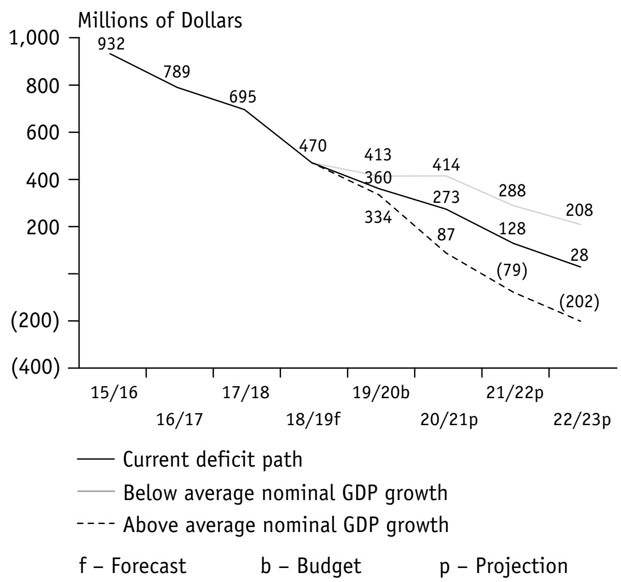


Source: Manitoba Finance

Forecast Sensitivity – Changes to Economic Growth

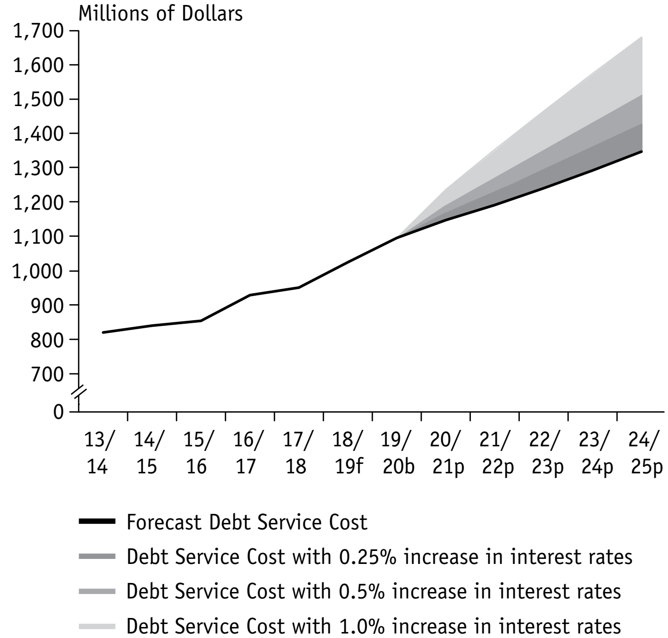
The graph shows the Manitoba Budget 2019 revenue scenarios that are based on the survey average nominal GDP growth forecasts of the most bullish and bearish private sector economists' projections that are tracked by Manitoba Finance. The medium term (2019/20 to 2022/23) average national nominal GDP growth is 3.8%. The above average growth is 4.2% while the below average annual growth is 3.5%.

Manitoba Summary Budget Deficit, Various Growth Scenarios, 2015/16–2022/23p



Sources: Manitoba Finance Survey of Economic Forecasts and Manitoba Finance calculations

Summary Debt Service Costs with Interest Rate Scenarios, 2013/14–2024/25p



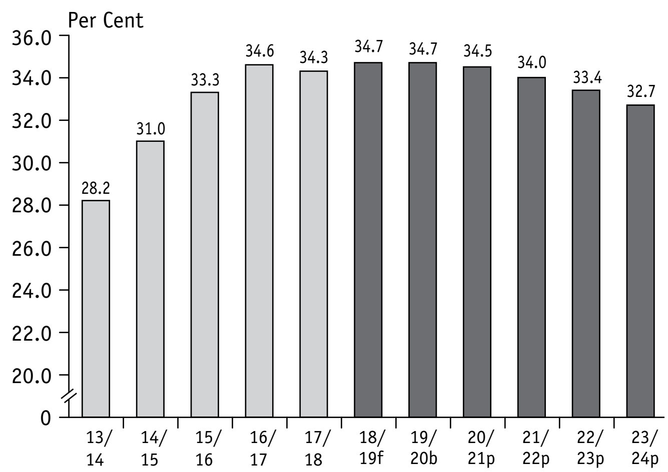
f – Forecast b – Budget p – Projection

Source: Manitoba Finance

Forecast Sensitivity – Changes to Interest Rates

The graph shows our base five-year debt servicing cost forecast, and adds bands showing scenarios if weighted average interest rates for all of our summary debt were to increase by 0.25%, 0.5% and 1.0%. It is important to note that much of our debt is subject to mid- to long-term maturities. As a result, changes in interest rates – though they directly impact our borrowing costs – do not immediately reset the cost of the entire base of our debt. It is only on maturity of the debt that new interest rates apply to any given particular tranche.

Net Debt to GDP Ratio Targets, 2013/14–2023/24p



f – Forecast b – Budget p – Projection

Sources: Manitoba Bureau of Statistics, Manitoba Finance Survey of Economic Forecasts

Net Debt to GDP Targets

Budget 2019 is the first year we are providing Net Debt to GDP target information.

Manitoba's net debt to GDP ratio saw sustained growth over the past number of years and peaked in 2018/19 at 34.7 per cent. This growth was largely driven by unsustainable deficits and in-progress capital spending. The ratio is forecast to remain unchanged at 34.7 per cent in 2019/20 and projected to decline gradually over the forecast horizon, reaching 32.7 per cent in 2023/24.

The chart is based on nominal GDP estimates from the Manitoba Bureau of Statistics and the Budget 2019 medium term forecast for nominal GDP from the Manitoba Finance Survey of Economic Forecasts.

CONCLUSION

The previous government increased their deficits while raising taxes and delivering worse outcomes. We are eliminating our deficit while lowering taxes and delivering better outcomes.

Responsible financial management is hard work. It is not a single decision that one needs to take, but rather it is the culmination of thousands of small decisions. The work is relentless, and we roll up our sleeves every day. We remain committed to doing that work for Manitobans, who deserve a better tomorrow.

Our results speak for themselves. There is much more to do, but we are already Canada's Most Improved Province.

We are getting the job done.