2008/09
FINANCIAL MANAGEMENT STRATEGY REPORT ON OUTCOMES

Manitoba

REPORT ON OUTCOMES

Budget 2008 set out the second Financial Management Strategy (FMS) for the Province of Manitoba. The annual FMS sets out our government's priorities for financial management, one or more measurable outcomes for each priority area, and objectives for each measurable outcome for the current year and for the future. For 2008/09, the FMS set out five financial management priority areas. This Report demonstrates the government's commitment to enhancing transparency and accountability and provides the public with the opportunity to assess the success of the government's performance, by providing the results of the measurable outcome from the original strategy.

These areas, their related measurable outcomes, and the results of the outcomes are summarized in the chart below.

FINANCIAL MANAGEMENT PRIORITY	MEASURABLE OUTCOMES	2008/09 OUTCOME
Transparency, Accountability and Fiscal Discipline	• Summary Budgeting and Financial Reporting	✓ The 2008/09 Public Accounts contain the audited statements of the entire Government Reporting Entity (GRE)
	• Balancing Summary Net Income	✓ The summary net income for 2008/09 is $470 million. The summary balance per Balanced Budget Legislation at the end of the fiscal year is $463 million
	• Maintaining accountability for Core Government program expenditure and revenue	✓ Core revenues exceeded core expenditures by $46 million after a transfer to the Debt Retirement Account
Stable and Affordable Government	• Credit ratings	✓ Standard & Poor's upgraded the credit rating of the Province in 2007 from AA-(positive) to AA(stable)
	• Expenditures as a percentage of Gross Domestic Product (GDP)	✓ The ratio continues to remain stable at 24.3%, unchanged from the forecast in the 2008 Budget
	• Addressing the unfunded pension liability	✓ Ongoing strategy is in place
		✓ In 2008/09 the government contributed $350 million to the liability of the Civil Service Superannuation Fund (CSSF)
Managing Debt	• Net Debt to GDP ratio	✓ Ratio remains stable at 22.4% in 2008/09
	• Debt retirement	✓ Ongoing strategy is in place
Infrastructure and Capital Asset Renewal	• Capital improvements	✓ Continued commitment to renewal and expansion of assets with $874 million invested in new tangible capital assets during the year
Performance Reporting	• Implementing key elements of an overall performance reporting framework	✓ Continued with an overall performance reporting strategy

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

■ PRIORITY AREA: TRANSPARENCY, ACCOUNTABILITY AND FISCAL DISCIPLINE

Our government continues to improve transparency and accountability while maintaining sound financial discipline. This commitment has been evident over the last few years as we have passed a number of major milestones, including: the achievement of fully adopting GAAP[1] compliant summary financial statements as of March 31, 2005; the introduction of a Summary Budget in 2007/08 and continued transition to Summary Reporting in 2008/09; the inclusion of public schools in our Summary Financial Statements for 2007/08; the introduction of a Financial Management Strategy (FMS) requirement in Budget 2007 and the introduction of the annual report on outcomes in the fall of 2008; the establishment of a rigorous general purpose debt repayment regime; and the development of plans to eliminate general purpose debt and pension liabilities.

Our government remains committed to the principles of transparency and accountability and continuing to demonstrate fiscal discipline into the future.

Measurable Outcome: Summary Budgeting and Financial Reporting

Budget 2007 delivered on the government's 2005 commitment to make the transition to summary budgeting and financial reporting. The Summary Budget presents comprehensive information on how the GRE operates as a whole and what the total cost is of providing programs and services to people in Manitoba. Correspondingly, the Third Quarter Financial Report for 2008/09 was presented on a summary basis and the year-end financial reporting presented in the Public Accounts for 2008/09 contains audited Financial Statements for the entire GRE. The Summary Financial Statements are now the primary reporting tool for Public Accounts.

As we move forward, we will continue to refine and improve upon the presentation of the Summary Budget, Summary Financial Statements and Public Accounts.

1 generally accepted accounting principles

Measurable Outcome:
Balancing Summary Net Income

The shift to a Summary Budget presents significant challenges. The GRE is comprised of many organizations, over which government does not have direct or day-to-day control. Given the nature of some of the entities in the GRE, the Summary Budget is more volatile than Core government. Updated balanced budget legislation, *The Balanced Budget, Fiscal Management and Taxpayer Accountability Act*, came into force in October 2008. This legislation reflects advice received from a review conducted by Deloitte, which shifts to a summary budgeting and financial reporting focus.

The updated balanced budget legislation defines balance as the average of the net results as shown in the audited summary financial statements of each fiscal year within the four-year period ending at that time. The results of applying this formula for the 2008/09 fiscal year is a balance of $463 million. In 2008/09 the government achieved a net income of $470 million, marking the fifth consecutive year the government has recorded a net income in the Summary Financial Statements. The net income was $374 million higher than stated in Budget 2008 and $154 million higher than forecast in the Third Quarter Financial Report.

The government is committed to continue to balance summary net income into the future, as prescribed by balanced budget legislation.

Measurable Outcome:
Maintaining accountability for Core Government program expenditure and revenue

To ensure transparency and accountability, the government continues to report on the allocation of revenues directly under government's control – the Core Government – through the Estimates of Expenditure and Revenue. The government is committed to planning annually for Core expenditures to be fully supported by related Core revenue, including funding advanced by the federal government to support multi-year joint federal-provincial priorities and funds contained in the Fiscal Stabilization Account. In 2008/09, Core revenues exceeded Core expenditures by $156 million, before transfers to the Debt Retirement Account of $110 million and $46 million to the Fiscal Stabilization Account.

	$ Millions
Revenue	10,171
Expenditure	10,015
	156
Transfer to Debt Retirement Account	(110)
Transfer to Fiscal Stabilization Account	(46)

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

■ PRIORITY AREA: STABLE AND AFFORDABLE GOVERNMENT

Continuous improvements in the way government operates and delivers services helps keep Manitoba programs affordable. Providing affordable public services means using public revenues effectively and efficiently.

Measurable Outcome: Credit Ratings

Manitoba continues to maintain its reputation for fiscal responsibility. The Province's measured approach to balancing the budget, paying down debt and the pension liability, and dealing with the needs in health care and other vital program areas has been acknowledged by credit rating agencies. This performance has been reflected in the credit rating upgrades Manitoba received from Moody's Investors Service and Standard & Poor's over the past number of years. In November 2006, Standard & Poor's revised its outlook for Manitoba to positive from stable, and then upgraded the credit rating of the Province in 2007 from AA-(positive) to AA(stable). This continuous performance reflects our achievements on gradually declining debt burden, robust financial results and financial liquidity.

Credit Rating Agency	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual
DBRS	A (positive)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Moody's	Aa2	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1
Standard & Poor's	AA-	AA-	AA-	AA-	AA-(positive)	AA(stable)	AA(stable)

Represents credit rating improvements from prior years.

Notes: As at March 31 (end of fiscal year)
In addition to the rating improvements above, in 2006 DBRS upgraded the Short-term Debt rating to R-1 mid.

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

Maintaining a stable and affordable government means managing the growth in spending to meet increasing demands for quality services in areas such as health, education and services for families, while keeping pace with the growth in the provincial economy. An effective measure of appropriate spending is the ratio of total expenditures as a percentage of GDP.

The actual result for 2008/09 is 24.3%, continuing a relatively stable trend from prior years and unchanged from Budget 2008. Actual results, shown in the table below, range from 24.3% to 25.0% reflecting the stability in the ratio over the last four years.

	2008/09 Actual	2008/09 Budget	2007/08 Actual	2006/07 Actual	2005/06 Actual
			Per cent of GDP		
Core Government Programs	19.1	19.2	18.7	18.7	19.2
Other Reporting Entities	3.6	3.5	4.2	4.0	3.8
Debt Servicing	1.6	1.6	1.7	1.7	2.0
Summary/GRE Expenditures	24.3	24.3	24.6	24.4	25.0

Note: Actual numbers for other reporting entities for 2005/06 do not include public schools as this information is not available in GAAP format. The percentage reflected for 2005/06 would increase if public schools information was included.

Numbers may not add due to rounding.

Addressing the Unfunded Pension Liability

The 2000 Budget introduced a comprehensive approach to address both debt and pension obligations. This plan provided a formula to allocate the debt and pension obligation funding, which was set at $110 million per year. In 2001, we started to make payments towards the accumulated liability, and in the 2002 Budget we announced our plan to make current service employer pension contributions for each new employee. In Budget 2008, we extended current service employer contributions for all employees.

During 2008/09, the government took further steps to deal with the unfunded pension liability of the Civil Service Superannuation Fund by funding $350 million of the liability.

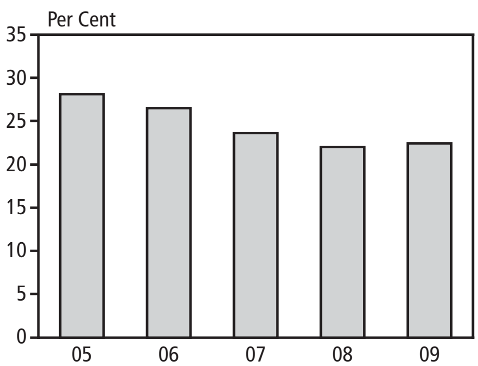
PRIORITY AREA: MANAGING DEBT

Since 2000, there has been a prescribed formula for determining the overall debt retirement allocation for payment of the general purpose debt and the pension liability. This formula requires that funds be set aside each year for this purpose. In 1999/2000 the debt payment made by the province was $75 million. In 2000/01, the payment was increased to $96 million and increased again to $110 million in 2005/06.

Measurable Outcome:
Net Debt to GDP Ratio

The Net Debt to GDP ratio is an important indicator of a government's financial position highlighting the affordability of future government service. Summary net debt represents the difference between the GRE's total liabilities less its financial assets[2] – it reflects the residual liability that must be financed by future revenues. Net debt may grow in absolute terms from time to time, as needed investments in tangible capital assets – assets like the Red River Floodway, and highway infrastructure – are made. These investments underpin and support Manitoba's economic performance. It is important therefore to measure changes in net debt against the growth of the economy, as measured by the nominal GDP.

Net Debt as a Percentage of GDP



Years ending March 31
Source: Public Accounts, March 31, 2009

Over the last several years, the Manitoba Government has successfully managed a substantial downward trend in the Net Debt to GDP ratio, lowering the ratio from 28.1% in 2004/05 to 22.4% in 2008/09, while continuously making much needed investments in Manitoba infrastructure. The slight increase in the ratio in 2008/09 is related to the other comprehensive income losses recorded by Government Business Enterprises. Our government is committed to continuing to reduce net debt to GDP over time.

Our success in reducing net debt to GDP is reflected in the chart to the side.

Measurable Outcome:
Debt Retirement

In 1999, the government established a plan to retire the general purpose debt and to eliminate the pension liability. Over nine years the government has committed more than $924 million to debt retirement and to reducing the province's unfunded pension liability.

2 Financial assets are assets such as cash, investments, loans and accounts receivable that could be readily converted to cash.

The government has streamlined debt management, reflected not only in our debt retirement plan, but also in the fact that debt service costs as a percentage of revenue continued to decline. Since 1999/2000 the debt servicing cost rate has declined by over 50%, from 13.2¢ of every dollar of summary revenue collected to an actual level of 6.4 ¢ in 2008/09.

The Manitoba Government is committed to continuing to retire debt with the ultimate goal of eliminating the general purpose debt and the remaining unfunded pension liabilities over time.

PRIORITY AREA: INFRASTRUCTURE AND CAPITAL ASSET RENEWAL

Provincial infrastructure is comprised of such tangible capital assets as roads, water control structures, parks and other capital assets including public service buildings, schools and health facilities which serve the public good. Renewal of these capital assets has become a growing priority for most governments and the public in recent years. Inadequate investment in these assets results in deterioration, loss of use and inefficiencies.

Renewal and expansion of these assets has also become increasingly important to the Government of Manitoba in recent years. The insured or replacement value of these tangible capital assets is estimated to be more than $31.0 billion.

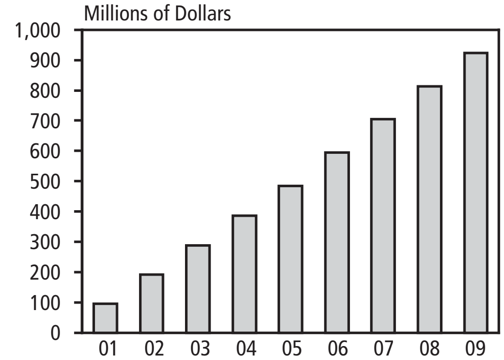
Measurable Outcome: Capital Improvements

Recognizing the growing infrastructure needs in various sectors, our government is committed to investing in public capital assets such as new or renewed hospitals, colleges, the Red River Floodway Expansion project and Manitoba's highway system.

Work on the expansion of the Red River Floodway continued in 2008/09 with the total estimated cost expected to be $665 million at completion in 2010. This project protects Manitobans from more than $12 billion in potential damages in the event of a major flood. Also, the government's significant commitments to enhance Manitoba's economic opportunities through a ten-year, $4 billion plan to revitalize highways and bridges, started in 2007.

Expenditures on major tangible capital assets in 2008/09 were over $874 million, including the major program areas highlighted in the adjoining chart. This demonstrates the priority our government places on infrastructure and public asset renewal.

Cumulative Debt Repayment



Year Ended March 31
Source: Manitoba Finance

Infrastructure and Capital Asset Renewal

2008/09 Improvements – Major Program Areas

	Actual
	Millions of dollars
Roads and Highways (including preservation)	366
Manitoba Floodway Expansion and Water Related Infrastructure	145
Assistance to Third Parties	132
Universities, Colleges and Public Schools	96
Health Facilities	73
Public Service Buildings	62

PRIORITY AREA: PERFORMANCE REPORTING

By improving the way government measures and reports on both financial and non-financial performance outcomes, both transparency and accountability are enhanced. Outcomes-based reporting provides information on the actual impacts, benefits or changes experienced as a result of a program or government service.

Measurable Outcome: Implementing key elements of an overall performance reporting framework

The significant components of the overall performance reporting framework for Manitoba are now in place.

In 2007/08, our government established eight principles to guide departments and major Crown organizations in performance reporting. These principles, which were based on a review of the recommendations of national standard setting organizations and the principles adopted by other jurisdictions, provide a solid foundation for performance reporting in Manitoba. The eight reporting principles are:

1. The organization's public purpose is explained.
2. The organization's priorities relate to overall government priorities.
3. Each organizational priority has objectives and actions to achieve them.
4. Measures are developed with outcomes in mind, focusing on a few critical aspects of performance.
5. Financial and non-financial information are linked.
6. The strategic context for the plan and reported results is discussed.
7. Performance information looks forward and backward in time.
8. Information is clear, relevant, credible and balanced.

During 2008/09, Manitoba published a statement of overall government priorities for use in the planning and performance reporting activities of departments and Crowns. The seven strategic priorities described in *Moving Forward: Manitoba's Priorities for the Future* are:

1. delivering quality health care and promoting healthy living;
2. promoting a cleaner, healthier environment;
3. improving education and training opportunities for young people here at home;
4. providing safer communities;
5. keeping Manitoba affordable;

6. developing our clean energy advantage for the benefit of all Manitobans; and
7. building our economy, building our communities.

These are the high level priorities against which departments will plan their activities and measure their performance in the future. Departmental plans will link their priorities, actions and outcomes to the overall government priorities, and the performance measures they report will reflect those linkages.

The annual reports issued in the fall of each year by government departments include key performance measures to complement the financial results and provide Manitobans with meaningful and useful information about government activities and their impact on the province and its citizens. Performance reporting information is also included in the annual reports and various specialized reports of many other entities in the GRE.

SUMMARY

The government is committed to enhancing transparency and accountability of financial reporting. We will continue to report annually on the priority areas and outcomes established in the FMS in order for the public to assess the success of the government's performance.