2009/10
FINANCIAL MANAGEMENT STRATEGY
REPORT ON OUTCOMES

Manitoba

Budget 2009 included the third 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 2009/10, the FMS set out five financial management priority areas as outlined in the chart below.

FINANCIAL MANAGEMENT PRIORITY	MEASURABLE OUTCOMES
Transparency, Accountability and Fiscal Discipline	• Summary Budgeting and Financial Reporting • Balancing Summary Net Income • Maintaining Accountability for Core Government Program Expenditure and Revenue
Stable and Affordable Government	• Credit Ratings • Expenditures as a Percentage of Gross Domestic Product (GDP) • Addressing the Unfunded Pension Liability
Managing Debt	• Debt Retirement • Net Debt to GDP Ratio
Infrastructure and Capital Asset Renewal	• Capital Investments
Performance Measurement	• Continued Development of Performance Measurement Capacity

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.

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

PRIORITY AREA: TRANSPARENCY, ACCOUNTABILITY AND FISCAL DISCIPLINE

Our government continues to improve transparency and accountability while maintaining sound financial discipline. This commitment has been evident over the last few years as a number of milestones have been achieved, including: fully adopting GAAP[1] compliant summary financial statements as of March 31, 2005; the transition to Summary Budgeting and Reporting in 2007/08; the introduction of a FMS requirement in the annual budget and the release of a report on outcomes within six months of the end of each fiscal year; the development of plans to eliminate general purpose debt and pension liabilities; passing updated balanced budget legislation reflecting the shift to budgeting and reporting on the GRE and implementing quarterly reporting financial information consistent with GAAP.

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 commitment to 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. With enactment of updated balanced budget legislation in October, 2008 the summary financial statements became the primary reporting tool for Public Accounts. The related transition of quarterly financial reports to a summary basis began in 2007/08, continued in 2008/09 and was completed in 2009/10 with the presentation of financial information consistent with GAAP.

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

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

1 generally accepted accounting principles

the GRE, the Summary Budget is more volatile than core government. As noted previously, updated balanced budget legislation came into force in October 2008 reflecting the shift to summary budgets and financial reporting.

Balanced budget legislation (BBL) 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. Although the world wide economic downturn resulted in a summary net loss of $201 million, it is significantly improved from the net loss of $555 million forecast at third quarter in 2009/10. The result of applying the BBL formula for the four year period is a balance of $319 million.

While the financial downturn had a negative impact on the 2009/10 financial results, the government is committed to balancing summary net income over the longer term.

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

To ensure transparency and accountability, the government continues to report on the results for core government expenditures and revenues for that fiscal year. Although Manitoba's stable economic base helped the province fare better than most governments around the world, the economic downturn did have a negative impact on core government results.

As reported, unexpected expenditures experienced by core government in 2009/10 included planning and mitigation costs for the H1N1 flu of $83 million as well as pressures to maintain vital services including healthcare–$82 million, child welfare–$27 million and persons with disabilities–$41 million. The province also accelerated the transfer of more than $20 million to the City of Winnipeg, primarily for infrastructure in response to the economic conditions. In total, expenditures were $10,568 million.

Core government revenue was $10,067 million, a decrease of $67 million from budget. After the budgeted transfer of $20 million to the Debt Retirement Account and a $57 million transfer from the Fiscal Stabilization Account, expenditure exceeded revenue by $464 million.

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

PRIORITY AREA: STABLE AND AFFORDABLE GOVERNMENT

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 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 through 2007, and through the reaffirmation of Manitoba's credit quality by rating agencies in 2008 and 2009. The credit rating agencies acknowledged the challenging economic conditions that faced all Canadian provinces in 2009/10 and the reaffirmation of our credit ratings reflects our past achievements on the gradually declining debt burden, strong financial results and financial liquidity.

Credit Rating Agency	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Projected
DBRS	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)
Moody's	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AA-	AA-	AA-	AA-(positive)	AA (stable)	AA (stable)	AA

Represents credit rating improvements from prior years.

NOTE: 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 effects of the economic downturn resulted in a revised projection of 26.0% by the third quarter of 2009/10, reflecting an increase from the 24.7% in Budget 2009. The actual result for 2009/10 is 25.6%, an improvement from the third quarter forecast. Actual results, shown in the table below, range from 24.2% to 25.6% reflecting the stability in the ratio over the last five years.

	2009/10 Actual	2008/09 Actual	2007/08 Actual	2006/07 Actual	2005/06 Actual
			Per cent of GDP		
Core Government Programs	20.6	19.4	18.5	18.6	19.1
Other Reporting Entities	3.5	3.4	4.1	3.9	3.7
Debt Servicing	1.5	1.7	1.8	1.8	2.1
Summary/GRE Expenditures	25.6	24.5	24.3	24.2	24.9

NOTE: Numbers may not add due to rounding.

Measurable Outcome: Addressing the Unfunded Pension Liability

The 2000 Budget introduced a comprehensive approach to address pension obligations. 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 2008/09, we extended current service employer contributions for all employees and in 2009/10 these current service contributions were allocated to departmental appropriations to better reflect the actual cost of services.

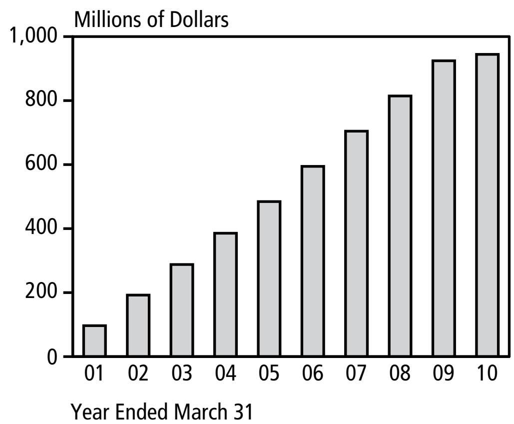
In 2007 the government took further steps to deal with the unfunded pension liability by funding 75% of the employer's liability related to the Teachers' Retirement Allowances Fund (TRAF) and in 2008 the government began addressing the employer's liability for the Civil Service Superannuation Fund (CSSF) by funding $350 million of the liability. In 2009/10, the government made a further allocation of $330 million to CSSF. Like any long-term strategy, there will be ups and downs in returns on investments. Borrowing funds to pay down the previously unfunded pension liability is a sound fiscal decision, as over the longer term, the cost of borrowing is less than the actuarially determined expected rate of return on the plan assets and the rate of growth in the pension liability. Global economic uncertainty and extraordinary market volatility defined the financial environment during 2008/09. Due to improving market conditions, much of the negative impact incurred was recovered in 2009/10.

PRIORITY AREA: MANAGING DEBT

Since coming into office, our government has been diligent about implementing specific disciplines to ensure sound fiscal management. These disciplines include: measures to pay down debt, addressing the unfunded pension liability, funding the employer's share of current service pension entitlements and ensuring that for core government all capital investments are amortized and all related costs are fully reflected in annual appropriations.

Measurable Outcome: Debt Retirement

Cumulative Debt Repayment



Source: Manitoba Finance

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 $944 million to address general purpose debt and pension obligations.

Our 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 6.0 ¢ in 2009/10.

Although the economic and fiscal reality has required the government to make adjustments in required debt payments, the Manitoba Government is committed to the ultimate goal of eliminating the general purpose debt and the remaining unfunded pension liabilities over time.

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.

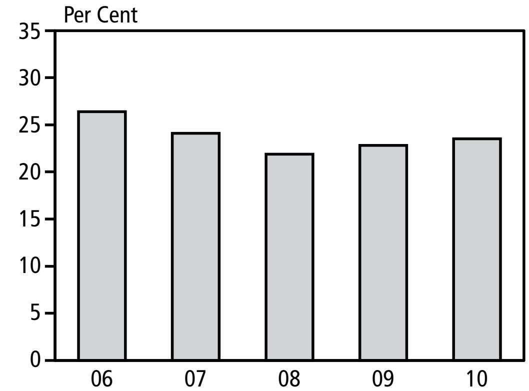
Over the last several years, the Manitoba Government has successfully managed an overall downward trend in the Net Debt to GDP ratio,

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

lowering the ratio from 31.7% in 1999/00 to 26.4% in 2005/06 and to 23.5% in 2009/10, while continuously making much needed investments in Manitoba infrastructure. Budget 2009 noted that as a result of the decision to make significant investments in infrastructure projects to create jobs and stimulate the economy, the net debt to GDP ratio was forecast to increase slightly. As a result of the greater than anticipated impact of the economic downturn, the third quarter financial report forecast a net debt to GDP ratio of 24.4% for 2009/10. The actual ratio of 23.5% for 2009/10 is an improvement from the third quarter projection and is consistent with the 2009 Budget.

In February 2010, Moody's Investors Service acknowledged that all Canadian provinces were likely to experience a brief increase in the net debt to GDP levels given the investment in stimulus infrastructure and tightening of revenues. Although Manitoba's ratio may rise as needed investments are made, our government is committed to returning to a downward trend and reducing net debt to GDP over time.

Net Debt as a Percentage of GDP



Year Ended March 31
Source: Public Accounts, March 31, 2010

■ PRIORITY AREA: INFRASTRUCTURE AND CAPITAL ASSET RENEWAL

Building and upgrading Manitoba's infrastructure has been a priority for the government since 1999. In November 2008, the government committed to a four-year multi-billion economic stimulus investment plan to fund key infrastructure projects in order to create jobs and training opportunities across the province. 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.

Measurable Outcome: Capital Investments

Since coming into office in 1999, our government has invested in public capital assets, such as new or renewed hospitals, colleges, the Red River Floodway and Manitoba's highway system. The government has acknowledged that the renewal will be costly as the insured or replacement value of these investments is over $36 billion.

In 2009/10 a decision was made to accelerate capital spending to mitigate the impact of the economic downturn. Incremental capital spending was budgeted to be supported by $135 million in federal economic stimulus funding.

Infrastructure and Capital Asset Renewal

2009/10 Investments – Major Program Areas

	$ Millions
Roads and Highways (including preservation)	541
Universities, Colleges and Public Schools	179
Health Facilities	124
Assistance to Third Parties	109
Manitoba Floodway Expansion and Water Related Infrastructure	97
Public Service Buildings	61
Housing (including third party contributions)	58
Parks and Campground Infrastructure	14

Work on the expansion of the Red River Floodway continued in 2009/10 with the total estimated cost expected to be $665 million at completion. This project protects Manitobans from more than $12 billion in potential damages in the event of a major flood. Resources were also provided in 2009/10 for upgrading Manitoba's roads and highways, wastewater treatment plants, expanding health facilities across the province, building and restoring much needed social housing, modernizing post-secondary institutions and addressing the requirements of public schools.

The timing of cost-shared projects resulted in some expenditures being delayed until 2010/11, however expenditures on major tangible capital assets in 2009/10 were $1.2 billion, an increase of $310 million from the prior year. Major program areas are highlighted in the adjoining table, demonstrating the priority our government places on infrastructure and public asset renewal.

■ PRIORITY AREA: PERFORMANCE MEASUREMENT

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

Measurable Outcome: Continued Development of Performance Measurement Capacity

Eight principles to guide measurement and reporting for the government departments and major Crown corporations were established as follows:

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.

In 2009/10 work continued on strengthening departmental capacity to measure, monitor and evaluate the effectiveness and efficiency of programs through the development of workshops on performance measurement and support to departments in this area.

Key performance measures will continue to be included in every government department's annual report 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 continuing to enhance 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.