Financial Management Strategy

Report on Outcomes for the Year Ended March 31, 2012

Manitoba moves forward

YEAR 2

Manitoba's five-year economic plan

Steady Growth. Positive Results.

Manitoba

The annual Financial Management Strategy (FMS) for the Province of Manitoba sets out the 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 2011/12, the FMS focused on priority areas identified in prior years and provided an update on the implementation of Manitoba's Five-Year Economic Plan.

FINANCIAL MANAGEMENT PRIORITY	MEASURABLE OUTCOMES
Transparency, Accountability and Fiscal Discipline	• Summary Net Income • Maintaining Accountability for Core Government Expenditure and Revenue
Stable and Affordable Government	• Credit Ratings • Expenditures as a Percentage of Gross Domestic Product (GDP) • Strengthening the Management of Public Resources
Managing Debt	• Debt Retirement • Net Debt to GDP Ratio
Infrastructure and Capital Asset Renewal	• Capital Investments
Performance Management	• Continued Development of Performance Management Capacity

This Report helps to ensure transparency and accountability by providing the public with the opportunity to assess the success of the government's performance by providing the results of the measurable outcomes 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

Government implemented a number of measures to ensure financial transparency and accountability while maintaining fiscal discipline over the past number of years. The measures include: fully adopting GAAP[1] compliant summary financial statements as of March 31, 2005; the implementation of summary budgeting and reporting in 2007/08 to present comprehensive information on the total cost of providing programs and

1 generally accepted accounting principles

services to Manitobans and how the Government Reporting Entity (GRE) operates as a whole; publishing a FMS as part of the annual budget and the release of a report on outcomes within six months of the end of each fiscal year; implementing summary quarterly financial reporting consistent with GAAP as of 2009/10; and extending the employer's share of current service contributions to all employees.

The commitment to transparency, accountability and fiscal discipline continued with an update on the multiyear plan for 2011/12 and future years.

Measurable Outcome: Summary Net Income

Governments around the world were affected by the economic downturn, the worst global recession since the end of the Second World War. While Manitoba's economy continued to be one of the most stable in Canada, there was no quick solution to the financial pressures the province faced.

Budget 2011 was the second year of the five-year plan introduced in Budget 2010 to restore balance and return to surplus by 2014/15. In 2011/12 investment continued in vital front-line services, improving health care, education and training, policing and supports for families and to stimulate economic growth by upgrading needed infrastructure to create jobs.

In 2011/12, Manitoba continued a number of cost reduction initiatives to manage salary costs including: negotiation of a zero per cent salary increase for the general civil service, reduction of ministerial salary levels by 20% and freezing salaries for members of the Legislative Assembly, their staff and senior government officials. Overall, government spending was managed strategically to ensure Manitobans' priorities were considered while maintaining affordability.

In 2010, balanced budget legislation was amended to require that during the economic recovery period at least $600 million of the balance in the fiscal stabilization account must be applied to the amortization of increases in the general purpose debt including related interest expense attributed to negative net results in core government. A draw of $124 million was made for the payment of debt ($110 million) and interest ($14 million) in 2011/12 to meet this legislated requirement.

Measurable Outcome: Maintaining Accountability for Core Government 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.

The unprecedented flooding in 2011 resulted in significant unbudgeted expenditures which negatively affected core government results for 2011/12. Flood expenditures in the amount of $740 million were incurred for flood fighting, mitigation work and financial assistance programs for homeowners, businesses, First Nation communities and municipalities. These expenditures were offset by revenues of $470 million, for a net core government impact of $(270) million.

Core government expenditures excluding the flood, were $11,358 million in 2011/12, $75 million higher than budget, primarily resulting from pressures in supports for families ($47 million) and justice initiatives ($27 million). Core government revenue was $10,718 million in 2011/12, $55 million lower than budget.

After a transfer of $45 million from the Fiscal Stabilization Account, expenditure exceeded revenue by $865 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 2010 and 2011. The credit rating agencies acknowledged the challenging economic conditions facing all Canadian provinces and the reaffirmation of our credit ratings reflects Manitoba's stable and diversified economy, strong financial position and a commitment to repay debt while restoring balance.

Credit Rating Agency	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual
DBRS	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)
Moody's	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AA-	AA-	AA-(positive)	AA (Stable)	AA	AA	AA (Stable)

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. An effective measure of appropriate spending is the ratio of total expenditures as a percentage of GDP.

Budget 2011 projected a 24.8% expenditure to GDP ratio. The actual result for 2011/12 is 26.1%, reflecting the unbudgeted emergency expenditures for the 2011 Spring Flood. Actual results, shown in the table on page 5, range from 24.1% to 26.1% reflecting a relative stability in the ratio over the last five years.

	2011/12 Actual	2010/11 Actual	2009/10 Actual	2008/09 Actual	2007/08 Actual
	Per cent of GDP				
Core Government Programs	20.8	19.9	20.3	19.1	18.7
Other Reporting Entities	3.8	3.9	3.5	3.3	4.0
Debt Servicing Costs	1.4	1.4	1.5	1.6	1.8
Total Expenditures	26.1	25.2	25.2	24.1	24.4

NOTE: Numbers may not add due to rounding.

Measurable Outcomes:
Strengthening the Management of Public Resources

Sound management and use of public resources are key to making government more effective. Government has made strategic decisions on the prioritization of expenditures to ensure that tax dollars are used effectively and efficiently.

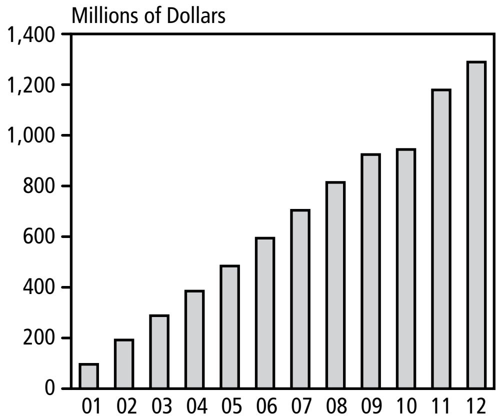
In 2011/12 over 50% of the departments in core government carefully managed their allocated resources resulting in an under-expenditure, offset by increased funding requirements in some vital services including supports to families, education, justice, and emergency expenditures for the 2011 Spring Flood.

The government supports continuous internal review and reform to provide Manitobans with affordable, innovative and effective public service operations, programs and services.

■ PRIORITY AREA: MANAGING DEBT

In the last decade, the government has implemented many specific initiatives to ensure sound fiscal management. These include: addressing the unfunded pension liability, funding the employer's share of current service pension entitlements; ensuring that all capital investments are amortized and all related costs are fully reflected in annual appropriations for core government; and establishing a plan to address core government deficits during the economic recovery period.

Cumulative Debt Repayment



Year ended March 31
Source: Manitoba Finance

Measurable Outcome: Debt Retirement

The government has committed over $1.2 billion to address general purpose debt and pension obligations since 1999 and continues to streamline debt management.

Debt servicing costs have declined by over 55% since 1999, from 13.2¢ of every dollar of summary revenue collected to 5.9¢ in 2011/12.

A debt payment of $110 million was made in 2011/12 with a draw from the Fiscal Stabilization Account (FSA) as required by balanced budget legislation. Last year this legislation was amended to include a provision that during the economic recovery period, at least $600 million of the balance in the FSA must be applied to the amortization of increases in the general purpose debt.

Capital investment continues to be a priority for government in order to support continued economic growth, reduce the maintenance burden and provide for the services Manitobans need in the future. The cost of these assets is amortized over a set period that represents the useful life of the asset as required by GAAP. The end result is continued infrastructure investment for Manitobans accompanied by a fixed discipline for paying down the associated debt.

The investment in tangible capital assets has increased steadily over the last decade with an investment of $1.3 billion in 2011/12. Total investment is $15.5 billion as of March 31, 2012 with $6.4 billion of related debt retired through accumulated amortization. The net book value of these assets (cost less accumulated amortization) has more than doubled since 2005/06 to $9.1 billion.

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

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

like the Red River Floodway, highway infrastructure and economic stimulus investments – are made. These forward looking investments help 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, lowering the ratio from 32.9% in 1999/2000 to 25.5% in 2011/12, while continuously making much needed investments in Manitoba infrastructure. Budget 2011 noted that as a result of the decision to make significant investments in infrastructure projects to create jobs and stimulate the economy in recent years, the net debt to GDP ratio was expected to rise in the short term. The actual rate of 25.5% for 2011/12 is an improvement from the 2011 Budget forecast of 26.2%.

Although Manitoba's ratio may rise as the government makes needed investments in infrastructure and capital asset renewal, including repairing the damage caused by the 2011 Spring Flood, the government remains committed to reducing the net debt to GDP ratio over the longer term.

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 reinforced this priority by announcing a four-year $4.7 billion economic stimulus investment plan to fund key infrastructure projects that create jobs and training opportunities across the province.

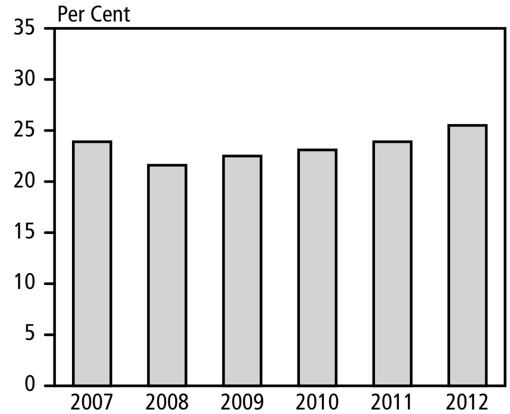
Measurable Outcome: Capital Investments

Resources were provided in 2011 for the continued upgrading of Manitoba's roads, highways and wastewater treatment plants, health facilities across the province, universities, colleges and public schools and modernization and improvement of social housing, parks and camping infrastructure.

Resources were also allocated during the year for the construction of new infrastructure to address flooding issues caused by the 2011 Spring Flood including the Lake St. Martin Channel and other projects required to repair existing structures damaged in the flood.

Expenditures on major tangible capital assets in 2011/12 were over $1.3 billion, an increase of $31 million from the prior year. Major program areas are highlighted in the adjoining table.

Net Debt as a Percentage of GDP



Year ended March 31
Source: Manitoba Finance

Infrastructure and Capital Asset Renewal

2011/12 Investments – Major Program Areas

	$ Millions
Roads and Highways (including Preservation)	531
Universities, Colleges and Public Schools	186
Health Facilities	171
Manitoba Floodway Expansion and Water Related Infrastructure	89
Housing (including third party contributions)	165
Assistance to Third Parties	93
Public Service Buildings	72
Parks and Camping Infrastructure	21
	1,328

PRIORITY AREA: PERFORMANCE MANAGEMENT

Improving the way government measures 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 Management Capacity

Manitoba continues to enhance performance management and performance outcome measurement across government by continuing to focus on the development of SMART (specific, measurable, achievable, reliable, time-bound) objectives.

Government departments and major Crown corporations continued to integrate the eight guiding principles for performance measurement into their performance management systems.

In 2011/12, government's Performance Management Community of Practice, established in 2010, continued to provide opportunities for collaboration, learning and building capacity in all areas of performance management including measuring and reporting. Key performance measures and performance information for government departments and other entities in the GRE continue to be included in annual reports and other specialized reports.

SUMMARY

The government is committed to enhancing transparency and accountability of financial reporting and integrating it with reporting on non-financial information. Manitoba 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 in the effective, efficient and economic use of public funds.