Manitoba moves forward

Financial Management Strategy

REPORT ON OUTCOMES

for the Year Ended March 31, 2013

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 2012/13, the FMS focused on priority areas identified in the following table:

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 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

1 generally accepted accounting principles

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 multi-year plan for 2012/13 and future years.

Measurable Outcome: Summary Net Income

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 has been facing since the global financial crisis.

A balanced approach to address the financial challenges continued with investment in vital front-line services, improving health care, education and training, policing and supports for families, taking steps to ensure the long term sustainability of infrastructure, and supporting economic growth and innovation.

In 2012/13, Manitoba implemented a number of cost reduction initiatives to manage costs in responsible and innovative ways including: reducing the number of regional health authorities from eleven to five; merging the Manitoba Liquor Control Commission and the Manitoba Lotteries Corporation; continuation of the 20 percent roll-back on salaries for government ministers; and reducing the number of government-appointed agencies, boards and commissions. In addition, program portfolio management reviews were implemented in 2012/13 to focus on core government program priorities. Overall, government spending was managed strategically to ensure Manitobans' priorities were considered while maintaining affordability to keep Manitoba one of the best places to live, work and raise a family.

Balanced budget legislation requires 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. To meet this legislated requirement, a draw of $140 million was made for the payment of debt only in 2012/13 in recognition of lower than projected interest rates.

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.

Core government expenditures in 2012/13 were $11,850 million, $154 million higher than budget, primarily resulting from increased expenditures related to the 2011 Spring Flood ($86 million), pressures in supports for families ($32 million) and public safety ($29 million). Core government revenue was $11,161 million in 2012/13, $2 million higher than budget.

After a transfer of $12 million from the Fiscal Stabilization Account, expenditure exceeded revenue by $677 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

Measurable Outcome: Credit Ratings

Credit Rating Agency	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual
DBRS	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)
Moody's	Aa2	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AA-	AA-(positive)	AA (Stable)	AA	AA	AA (Stable)	AA (Stable)

NOTE: In addition to the rating improvements above, in 2006 DBRS upgraded the Short-term Debt rating to R-1 mid

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.

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 2011 and 2012. 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.

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.

The 2012/13 actual expenditure to GDP ratio is 24.2%, which is the same as the Budget 2012 projection. Actual results, shown in the table below, range from 23.5% to 25.8% reflecting a relative stability in the ratio over the last five years.

	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual
	Per cent of GDP				
Core Government Programs	18.6	19.7	19.3	20.5	19.6
Other Reporting Entities	3.3	3.4	3.7	3.8	3.2
Debt Servicing Costs	1.6	1.5	1.4	1.4	1.4
Total Expenditures	23.5	24.6	24.4	25.8	24.2

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 2012/13 over 70% of the departments in core government managed their allocated resources resulting in an under-expenditure, offset by increased funding requirements in some vital services including supports to families, education, and justice.

Through the 2012/13 program portfolio management review process, departments achieved reductions that enabled the government to re-invest these savings in frontline services such as supports for vulnerable children and adults, corrections and to address the residual effects of the 2011 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.

Measurable Outcome: Debt Retirement

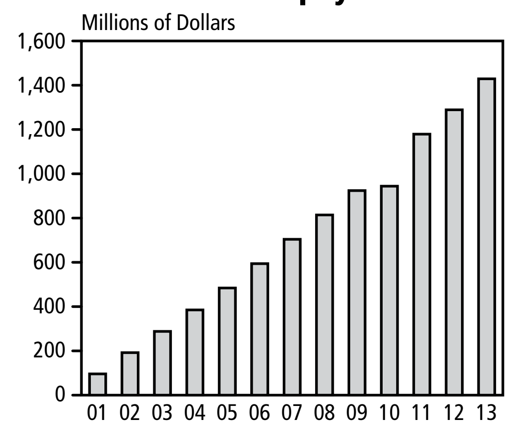
The government has committed over $1.4 billion to address general purpose debt and pension obligations since 1999 and continues to streamline debt management.

Debt servicing costs have declined by over 53% since 1999, from 13.2¢ of every dollar of summary revenue collected to 6.1¢ in 2012/13.

A debt payment of $140 million was made in 2012/13 with a draw from the Fiscal Stabilization Account (FSA) as required by balanced budget legislation. The legislation was amended in 2010 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.

Cumulative Debt Repayment

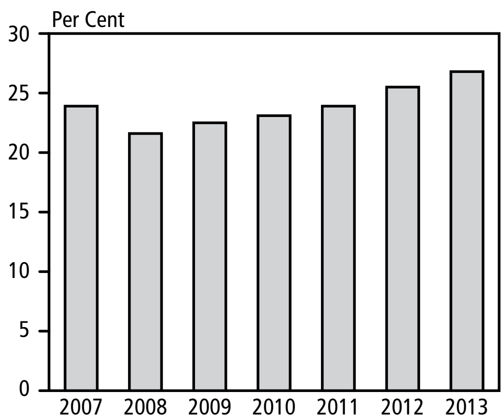


Year ended March 31
Source: Manitoba Finance

The investment in tangible capital assets has increased steadily over the last decade with an investment of $1.2 billion in 2012/13. Total investment is $16.7 billion as of March 31, 2013 with $6.9 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 $9.8 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.

Net Debt as a Percentage of GDP



Year ended March 31
Source: Manitoba Finance

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, highway infrastructure and schools and hospitals – 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 26.8% in 2012/13, while continuously making much needed investments in Manitoba infrastructure. Manitoba has acknowledged that as a result of the decision to make significant investments in infrastructure projects, including repairing the damage caused by the 2011 flood and mitigation projects to lessen the impact of any future floods, the net debt to GDP ratio was expected to rise in the short term. The actual rate of 26.8% for 2012/13 is an improvement from the 2012 Budget forecast of 27.4%.

Although Manitoba's ratio may rise as the government makes needed investments in infrastructure and capital asset renewal, the government remains committed to reducing the net debt to GDP ratio over the longer term.

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

■ PRIORITY AREA: INFRASTRUCTURE AND CAPITAL ASSET RENEWAL

Building and upgrading Manitoba's infrastructure has been a priority for the government since 1999. Since the global economic downturn, the government reinforced this priority with a $4.7 billion economic stimulus investment plan to fund key infrastructure projects that create jobs and training opportunities across the province. Over the past four years, a total of over $5.0 billion has been invested in infrastructure projects across the province.

Measurable Outcome: Capital Investments

Resources were provided in 2012 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.

Expenditures on major tangible capital assets in 2012/13 were over $1.2 billion. Major program areas are highlighted in the following table.

■ 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.

Manitoba government departments and major Crown corporations continue to apply guiding principles of performance measurement and reporting to continue making progress on the measurement of performance outcomes.

Measurable Outcome: Continued Development of Performance Management Capacity

In 2012/13, program portfolio management reviews incorporated a performance management approach and provided departments with an opportunity to enhance their performance management awareness and capacity. Performance measures and information for government departments and other entities in the GRE continued to be included in annual reports and other specialized reports.

Infrastructure and Capital Asset Renewal

2012/13 Investments – Major Program Areas

	$ Millions
Roads and Highways (including Preservation)	506
Universities, Colleges and Public Schools	182
Health Facilities	167
Manitoba Floodway Expansion and Water Related Infrastructure	44
Housing (including third party contributions)	187
Assistance to Third Parties	70
Public Service Buildings	49
Parks and Camping Infrastructure	31
	1,236

The government's Performance Management Community of Practice, established in 2010, continued to provide opportunities for collaboration, learning and building capacity in performance management. Learning events and lunch-time learning sessions were held throughout the year on performance management-related topics, including Lean management.

■ 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.