Financial Management Strategy

REPORT ON OUTCOMES

For The Year Ended March 31, 2014

Focused on what matters most › to families.

Manitoba

FINANCIAL MANAGEMENT STRATEGY
REPORT ON OUTCOMES

FOR THE YEAR ENDED MARCH 31, 2014

Manitoba

Manitoba Finance

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FINANCIAL MANAGEMENT PRIORITIES

The 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 2013/14, the FMS focused on priority areas identified in the following table:

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

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 result 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 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 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 balanced financial strategy for 2013/14 and future years.

Measurable Outcome: Summary Budget Outlook

Manitoba's economy has traditionally been one of the most stable in Canada, however, economic growth continues to be modest.

Manitoba's balanced approach for delivering services while recognizing the continued uncertainty in global economies continued in 2013/14. This balanced approach focused on: supporting economic growth by upgrading needed infrastructure, investing in vital front-line services by continuing to improve health care, education and training, policing and supports for families and managing government spending strategically to ensure Manitobans' priorities come first while maintaining affordability to keep Manitoba one of the best places to live, work and raise a family.

In 2013/14, Manitoba leveraged the success of initiatives introduced in previous years and introduced new responsible and innovative ways to reduce the cost of government and to increase efficiency including:

- the establishment of Entrepreneurship Manitoba to provide an integrated suite of programs and innovative service improvements for entrepreneurs and businesses;
- integration of the Financial Institutions Regulation Branch in the new Manitoba Financial Services Agency (formerly the Manitoba Securities Commission);
- completion of the sale of the Property Registry to Teranet Manitoba to provide faster and better services for reasonable prices;
- continuing to use LEAN to streamline processes;
- amalgamating regional offices to increase efficiency in the provision of core government services;
- building on efficiencies realized from the amalgamations of the Regional Health Authorities; and
- continued activities to facilitate the merger of the Manitoba Liquor Control Commission and the Manitoba Lotteries Commission (Manitoba Liquor and Lotteries Commission) including co-locating staff enabling collaboration in common functional areas leading to efficiencies.

Balanced budget legislation was amended to extend the period of economic recovery to March 31, 2016 while continuing to require that 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 during this period. To meet this legislated requirement, a draw of $100 million was made for the payment of debt 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 2013/14 were $12,207 million, $108 million higher than budget, primarily as a result of government's commitment to work towards a settlement with the First Nations communities affected by previous flooding ($100 million), pressures in supports for families ($11 million) and public safety ($15 million) offset by savings in other areas. Core government revenue was $11,555 million in 2013/14, $31 million higher than budget.

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

Manitoba continued to maintain its reputation for fiscal responsibility, demonstrated by the Province's measured approach to paying down debt and the pension liability, while dealing with the needs in health care and other programs. This approach has been positively acknowledged by credit rating agencies and reflected in the credit rating upgrades Manitoba received from Moody's Investors Service and by Standard & Poor's through 2007, and through the re-affirmation of Manitoba's credit quality by rating agencies in the last five years.

During this period of economic and financial recovery, Manitoba's stable and diversified economy, strong financial position and commitment to responsible financial management resulted in a steady credit outlook in 2013. However, the credit rating agencies are aware of the challenging economic conditions facing all Canadian provinces.

Subsequent to the end of the fiscal year, Moody's Investors Service changed the outlook on the Province of Manitoba's debt ratings to negative from stable. This change did not affect the overall credit rating of the Province which will remain the same as noted below for fiscal year 2014. Government remains committed to its plan for return to a balanced financial position supported by the positive economic benefits of investments in core infrastructure.

Manitoba's balanced multi-year approach continues to include draws from the fiscal stabilization account to repay debt, while restoring balance. The Manitoba government remains committed to maintaining fiscal responsibility to achieve stable or improving credit ratings into the future.

Credit Rating Agency	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual
DBRS	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)	A(high)
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AA- (positive)	AA (Stable)	AA	AA	AA (Stable)	AA (Stable)	AA (Stable)

NOTE: As at March 31 (end of fiscal year)

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

Maintaining a stable and affordable government means managing the growth in spending to meet increasing demands for quality services. An effective measure of appropriate spending is the ratio of total expenditures as a percentage of GDP. This ratio has remained relatively stable over the last five years with the actual result of 24.4% in 2013/14, which is in line with the projection of 24.0% in Budget 2013.

Expenditure to GDP ratios are reflected in the following table.

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual
			Per cent of GDP		
Core Program Expenditure	19.7	19.3	20.5	19.6	19.9
ORE Expenditure	3.4	3.7	3.8	3.2	3.2
Debt Servicing Costs	1.5	1.4	1.4	1.4	1.4
Total Expenditure	24.6	24.4	25.8	24.2	24.4

NOTES: Numbers may not add due to rounding.
Prior year numbers are not restated.

Measurable Outcome: Responsible Management of Public Resources

Responsible management and use of public resources are key to making government more effective. Government continued to explore ways to make sure that public spending remains under control and that tax dollars are used effectively and efficiently.

The government supports continuous internal review and reform to provide Manitobans with affordable, innovative and effective public service operations, programs and services. Lean management initiatives were implemented throughout the year in support of this commitment. This included continued rationalization of government offices and co-locating departmental staff where appropriate and reviewing internal processes while ensuring service levels remained constant.

The government continued to emphasize reforms that improved accountability and transparency and sustainable programs that protect the priorities of Manitobans, including its commitment to reduce the civil service by 600 over three years. At April 1, 2014, the number of employees was reduced by 367 compared to April 1, 2012.

In 2013/14 over 70% of the departments in core government managed their allocated resources carefully resulting in an under-expenditure, offset by increased funding requirements in some vital services including supports to families, health care and justice.

PRIORITY AREA – MANAGING DEBT

Over the years, the government has continued to implement 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 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 contributed over $1.5 billion to reduce the general purpose debt and meet pension obligations. Direct action to address the unfunded pension liabilities for the Civil Service Superannuation Plan (CSSP) and the Teachers' Retirement Allowances Fund (TRAF) began in 2007/08 with the government borrowing funds that would be invested by these two pension plans on behalf of the government.

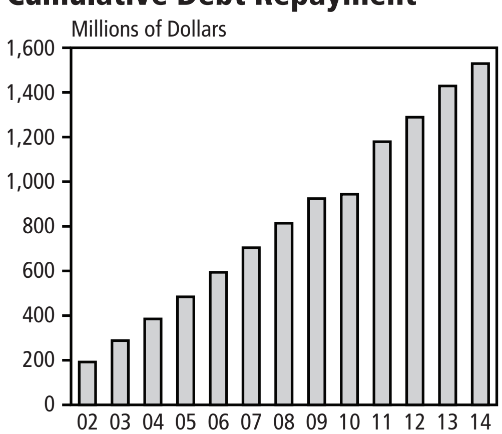
Debt servicing costs have declined by over 55% since 1999, from 13.2¢ of every dollar of summary revenue collected to 5.8¢ in 2013/14.

A debt payment of $100 million was made in 2013/14 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 economic growth and provide for the services Manitobans need in the future. The investment in tangible capital assets has increased steadily over the last decade, and with the $1.3 billion investment in 2013/14, reached to total $17.9 billion at March 31, 2014, with $7.3 billion of related debt retired through accumulated amortization. The net book value of these assets (cost less accumulated amortization) has more than tripled since 1999/2000 to $10.6 billion.

Although the lingering financial uncertainty slowed progress, the government remains committed to reducing debt over time with an ultimate goal of eliminating the general purpose debt and the remaining unfunded pension liabilities.

Cumulative Debt Repayment



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 – 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 capital assets – like the Red River Floodway, highway infrastructure, 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.

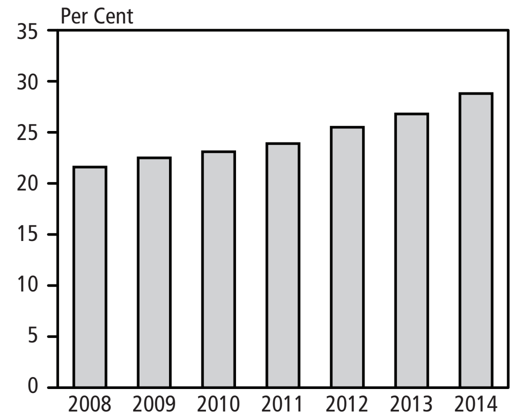
Over the last several years, the Manitoba Government has successfully managed an overall downward trend in the net debt to GDP ratio, lowering the ratio from 32.9% in 1999/2000 to 28.8% in 2013/14 while continuously making much needed investments in Manitoba infrastructure. Manitoba has acknowledged that as a result of the decisions to make significant investment 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 28.8% for 2013/14 is close to the Budget forecast of 28.7%.

The government is committed to returning to a downward trend in this 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 2008, the government introduced an economic stimulus investment plan to fund key infrastructure projects across the province. Manitoba has also dedicated revenue raised through fuel taxes to fund infrastructure, participated in the national stimulus program that began in 2009, and in 2011, committed to providing the equivalent of one-seventh of the provincial sales tax to support investment in municipal infrastructure and public transit. Manitoba has once again reaffirmed its commitment to infrastructure renewal and capital asset investment by introducing a new Core Infrastructure Plan.

Net Debt as a Percentage of GDP



Year ended March 31
Source: Manitoba Finance

Measurable Outcome: Core Infrastructure Plan and Capital Investments

Core Infrastructure Plan

Manitobans recognize the importance of investments in infrastructure such as roads, highways and bridges, flood restoration and protection projects and municipal infrastructure including roads and clean water.

The November 2013 Throne Speech committed to development of a five-year plan to create jobs and build infrastructure with a legislated requirement to report on core infrastructure expense against the base level of investment and the increase in PST.

While the 2013/14 fiscal year is outside of Manitoba's five-year core infrastructure plan, reporting on the 2013/14 expenditures is provided to meet the legislative requirements. In total, core infrastructure spending was $844 million, $75 million under the government's investment commitment. Future investment over the term of the Core Infrastructure Plan will consider and address this underinvestment.

	2013/14 Actual (Millions of Dollars)	**2013/14 Projection**
Roads, Highways and Bridges	515	532
Flood Protection	73	64
Municipal Infrastructure*	256	258
Planned Investment	**844**	**854**
Base Funding Level	729	729
1 point PST commitment	190	196
Investment Commitment	**919**	**925**
Investment Over/(Under) Commitment	**(75)**	**(71)**

*Building Manitoba Fund net of transit operating grants

Additional information on the Core Infrastructure Plan, including detailed project information, can be found at www.SteadyGrowth.ca

Capital Investments

Since 2000, the government has invested $10.6 billion in public capital assets, including: $4.5 billion for new or renewed hospitals, universities, colleges and public schools, the modernization and improvement of social housing and public service buildings; and $3.8 billion to upgrade Manitoba's roads and highways, parks and camping infrastructure, and the Manitoba Floodway.

Expenditures on major tangible capital assets as originally identified in Budget 2013 were over $1.4 billion. Major program areas are highlighted in the following table.

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.

Infrastructure and Capital Asset Renewal

2013/14 Investments – Major Program Areas

	$ Millions
Roads and Highways (including preservation and maintenance)	515
Universities, Colleges and Public Schools	236
Health Facilities	243
Manitoba Floodway and Water-Related Infrastructure	52
Housing (including third-party contributions)	227
Assistance to Third Parties	123
Public Service Buildings	24
Winter Roads	10
Parks and Camping Infrastructure	25
	1,455