



Province of Manitoba

2010/11 Quarterly Financial Report April to September 2010

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INTRODUCTION

Budget 2010 provided the financial overview of the Government Reporting Entity (GRE), which includes core government and Crown organizations, government business entities and public sector organizations such as regional health authorities, school divisions, universities and colleges. Manitoba's summary budget aligns with the accounting standards set by the Public Sector Accounting Board and fully reflects Generally Accepted Accounting Principles (GAAP). A summary budget presents a more complete picture of how the provincial government and the other related entities operate as a whole and what the total cost is of providing services and programs to people in Manitoba.

The financial information in this quarterly financial report is presented in the same format as the budget. The second quarter financial report presents information on the GRE for the six months ending September 30, 2010 as well as an updated financial forecast for the current fiscal year. Prior years' experience has shown a trend of positive variances in the actual results of the Other Reporting Entities (ORE). Consistent with this trend, a year-end adjustment, or lapse, has been included in the ORE forecast beginning with this report.

GOVERNMENT REPORTING ENTITY (GRE)

Budget 2010 introduced a five-year plan to position the province for the global economic recovery and return the province to surplus.

For fiscal year 2010/11 the forecast for summary net income is a loss of \$471 million. This is a \$74 million improvement from the projection in the five-year plan.

The improvement reflects core government results being \$40 million better than budget and the ORE improving \$34 million from budget. Prior to the inclusion of the year-end adjustment in the ORE the GRE was anticipated to improve by \$37 million.

At the end of the second quarter, core government revenue is forecast to be \$284 million higher than budget primarily as a result of revised federal estimates for both individual income tax - \$160 million and corporation income tax - \$70 million. Other taxes are forecast to be higher than budget due to strength in mining, corporations and tobacco taxes, partially offset by a lower than anticipated increase in retail sales tax.

Projections from other reporting entities result in an improvement in the government business

enterprises (GBEs) of \$9 million, primarily as a result of Manitoba Hydro's forecast being higher than budget, offset by a decrease in Manitoba Public Insurance. Other variances include post secondary institutions reflecting higher than budgeted results, while lower than anticipated net income from Manitoba Agricultural Services Corporation reflects unseasonable weather.

As noted at the end of the first quarter, severe spring and summer flooding and forest fire suppression in northern Manitoba have resulted in unbudgeted emergency expenditures in core government. The October weather event that caused damage in and around Lake Winnipeg is expected to result in further emergency expenditures. An updated forecast for emergency expenditures will be available in the third quarter financial report.

Core government expenditure pressures continue in supports for health care – \$71 million; families – \$67 million; and public safety and corrections – \$24 million. While the net result for core government has improved from budget, the government continues to monitor these pressures.

Projection of Summary Net Income/(Loss)

For the Fiscal Year Ending March 31, 2011
UNAUDITED

(Millions of Dollars)	2010/11 Second Quarter Forecast			2010/11 Budget			
	Core Government	Consolidation Impacts and Other Reporting Entities*	Summary	Core Government	Consolidation Impacts and Other Reporting Entities	Summary	Summary Variance
Revenue	10,502	2,505	13,007	10,218	2,502	12,720	287
Expenditure	10,999	2,479	13,478	10,755	2,510	13,265	213
Net Result for the Year	<u>(497)</u>	<u>26</u>	<u>(471)</u>	<u>(537)</u>	<u>(8)</u>	<u>(545)</u>	<u>74</u>
Transfer from/(to) Fiscal Stabilization Account	38	(38)	-	38	(38)	-	-
Net Income/(Loss)	<u><u>(459)</u></u>	<u><u>(12)</u></u>	<u><u>(471)</u></u>	<u><u>(499)</u></u>	<u><u>(46)</u></u>	<u><u>(545)</u></u>	<u><u>74</u></u>

*Includes a year-end adjustment of \$37 million

QUARTERLY FINANCIAL RESULTS

The unaudited net result of the GRE for the first six months of the fiscal year is \$127 million, \$11 million better than estimated. The variance is the net result of revenue being \$55 million higher than anticipated and expenditure being \$44 million higher than estimated.

The six-month revenue variance is mainly due to net income of GBEs being \$49 million higher and other taxes being \$24 million higher than estimated as the result of timing. These increases were partially offset by fees and other revenue being \$23 million lower than estimated.

Expenditure variances are also primarily the result of timing of payments.

Government Reporting Entity Operating Statement

UNAUDITED

(\$000s)	Year-to-Date to September 30			2009/10 Actual
	Actual	Estimated	Variance	
Revenue				
Income Taxes	1,318,040	1,314,952	3,088	1,296,547
Other Taxes	1,581,678	1,557,759	23,919	1,560,444
Fees and Other Revenue	880,609	904,098	(23,489)	899,848
Federal Transfers	2,094,695	2,090,160	4,535	1,982,493
Net Income of Government				
Business Enterprises	318,789	269,517	49,272	247,949
Sinking Funds and Other Earnings	102,482	104,272	(1,790)	132,379
Total Revenue	6,296,293	6,240,758	55,535	6,119,660
Expenditure				
Health and Healthy Living	2,476,717	2,470,571	6,146	2,396,008
Education	1,505,793	1,457,081	48,712	1,307,541
Family Services and Consumer Affairs Community, Economic and Resource Development	655,146	666,215	(11,069)	691,739
Justice and Other Expenditures	795,024	782,651	12,373	673,483
Debt Servicing Costs	388,312	394,619	(6,307)	416,406
Total Expenditure	6,169,703	6,125,372	44,331	5,863,739
Net Result	126,590	115,386	11,204	255,921
Transfer to Debt Retirement Account	-	-	-	(20,000)
Net Income/(Loss)	126,590	115,386	11,204	235,921

Core government revenue and expenditure details are provided in Appendix I and II on pages 7 and 8.

Infrastructure and Capital Asset Renewal

Expenditures for infrastructure and capital asset renewal in 2010/11 are forecast to be \$1.6 billion. The projects are supported by \$154 million in federal infrastructure renewal funding.

Based on principles of sound financial management, Manitoba has been able to increase the assets of the province while maintaining a manageable level of debt. Budget 2010 provides the resources for upgrading Manitoba's roads and highways, wastewater treatment plants, health facilities across the province, building and restoring much needed social housing and modernizing our schools and post-secondary institutions.

As borrowings may be used to finance capital related projects, net debt may grow in absolute terms from time to time as needed investments in capital assets – like the Red River Floodway, highway infrastructure and economic stimulus investments – are made. It is therefore important to measure change in net debt against the growth of the economy. As a result of the decision to continue to invest in infrastructure projects to create jobs and stimulate the economy, an increase in the net debt to GDP ratio to 26.8% was projected in Budget 2010. For fiscal year 2010/11, summary net debt to GDP is currently forecast to be 25.1%.

At the end of the second quarter, \$304 million in core government capital investments have been made, with a projected investment of \$792 million by fiscal year-end.

Core government capital investment details are provided in Appendix III on page 9.

SPECIAL ACCOUNTS

Fiscal Stabilization

The budgeted draw for 2010/11 includes funds advanced by the Government of Canada in previous years for health programming of \$25 million and \$8 million for requirements related to ecoTrust funds as well as \$6 million for the interest expense associated with the core government operating shortfall. Manitoba's Five-Year Economic Plan includes using an estimated \$600 million of the funds set aside in this Account to retire a portion of the debt and interest expense associated with the core government operating shortfalls during the economic recovery period. In 2010/11, \$90 million will be withdrawn for debt repayment.

Debt Retirement

The account has been collapsed in 2010/11 and the entire balance of \$145 million has been utilized as part of the five-year plan to repay general purpose debt.

Pension Assets

The trust conditions of the funds held in the Pension Asset Fund are irrevocably restricted for pension purposes only. As a result of this restriction, these funds are classified as pension assets and will be accounted for and reported in keeping with GAAP for senior governments.

The fund balance is projected to increase in 2010/11 as a result of the government's plan to continue addressing the unfunded liability for the Civil Service Superannuation Fund and net investment earnings.

Net investment earnings include the expected rate of return during the year and adjustments to market related value. Under GAAP, market fluctuations of pension assets are not recorded in the year in which they occur but are recognized over the employee average remaining service life (EARSL).

PROVINCIAL BORROWINGS, GUARANTEES AND OBLIGATIONS

Manitoba's borrowing requirement identified in the 2010 Budget was \$3.4 billion including refinancing of \$1.3 billion and new cash requirements of \$2.4 billion, offset by a repayment of \$338 million. New cash requirements are required for general Government purposes, capital investments by departments, Manitoba Hydro and for the funding of the unfunded pension liability for the Civil Service Superannuation Plan. Estimated repayments are primarily for general purpose borrowings. At the end of the second quarter the requirement has been revised to \$3.3 billion to reflect better than forecast results for fiscal years 2009/10 and 2010/11.

For the period of April 1, 2010 to September 30, 2010, \$114.7 million was raised through the issue of Builder Bonds and \$1.7 billion was raised in the public market.

The total outstanding borrowings, guarantees and obligations reflect the province's gross borrowing obligations, but it does not take into consideration liquid assets available to pay down those obligations. The total of outstanding provincial borrowings fluctuates during the fiscal year as a result of the timing of borrowing activities of the province. The forecast for the year end has been updated to reflect this as shown in the table on the following page.

Provincial Borrowings, Guarantees and Obligations

	2010/11 Forecast		March 31, 2010	
	\$ millions	\$ Per Capita*	\$ millions	\$ Per Capita*
Provincial Borrowings, Guarantees and Obligations				
General Government Programs	6,970	5,642	6,831	5,541
General Government Programs - Pensions ¹	2,355	1,906	2,175	1,764
Manitoba Hydro	8,574	6,940	7,730	6,271
Other Crown Organizations	1,587	1,285	1,478	1,199
Health Facilities	1,005	814	949	770
Government Enterprises and Other ²	58	47	65	53
Capital Investments	2,571	2,081	1,846	1,498
Subtotal ³	23,120	18,715	21,074	17,096
Other Obligations				
Pension Liability	6,611		6,392	
Pension Asset Fund	(4,838)		(4,592)	
Net Pension Liability	1,773		1,800	
Debt incurred for and repayable by the Manitoba Hydro				
Electric Board and Manitoba Lotteries Corporation	(8,564)		(8,289)	
Education and Health Debt held by Government				
Enterprises	466		502	
Other Debt of Crown Organizations	397		270	
Subtotal	(5,928)		(5,717)	
Total Provincial Borrowings, Guarantees and Obligations	17,192		15,357	
Adjustments to arrive at Summary Net Debt				
Guarantees	(170)		(353)	
Net Financial Assets	(3,645)		(3,210)	
Summary Net Debt⁴	13,377	10,828	11,794	9,568
Summary Net Debt as a percentage of GDP	25.1%		23.5%	

Notes: Provincial Borrowings, Guarantees and Obligations

1. In 2010/11, the Government plans to allocate an additional \$180 million to address pension obligations for the civil service.
2. Includes amounts owed relating to federal accounting errors in prior years. See Note 10, page 95 of the 2009/10 Public Accounts for additional information.
3. Provincial Borrowings and Guarantees are payable in Canadian and U.S. dollars. As at September 30, 2010, total provincial borrowings and guarantees were payable 91% in Canadian dollars and 9% in U.S. dollars. Of this total, General Government Program borrowing and Other Crown organizations borrowings was 100% payable in Canadian dollars. Manitoba Hydro borrowings were payable 74% in Canadian dollars (72% at March 31, 2010) and 26% in U.S. dollars (28% at March 31, 2010).
4. No projection for other comprehensive income has been included in the 2010/11 forecast.

* The per capita data for 2010/11 is based upon population figures at July 1, 2010 and the March 31, 2010 per capita data is based upon population figures at April 1, 2010 as reported by Statistics Canada.

2010/11 Core Government Revenue by Source
UNAUDITED

Appendix I

(\$000s)	Year-to-Date to September 30				Full Year			
	2010/11			2009/10	2010/11			Actual
	Actual	Estimated	Variance	Actual	Forecast	Budget	Variance	2009/10
Income taxes								
Individual Income Tax	1,175,120	1,185,967	(10,847)	1,158,199	2,580,400	2,420,500	159,900	2,401,381
Corporation Income Tax	142,920	128,985	13,935	138,348	317,300	246,900	70,400	257,081
Subtotal: Income Taxes	1,318,040	1,314,952	3,088	1,296,547	2,897,700	2,667,400	230,300	2,658,462
Other Taxes								
Corporations Taxes	124,547	113,314	11,233	125,788	214,200	196,200	18,000	233,159
Gasoline Tax	62,135	59,376	2,759	58,683	141,300	141,300	-	139,808
Land Transfer Tax	34,838	31,400	3,438	30,175	56,337	51,000	5,337	53,661
Levy for Health and Education	149,205	151,791	(2,586)	146,113	377,650	377,650	-	364,736
Mining Tax	6,632	5,469	1,163	-	20,000	6,000	14,000	9,924
Motive Fuel Tax	38,127	36,502	1,625	35,510	88,600	88,600	-	90,158
Retail Sales Tax	673,180	688,131	(14,951)	661,162	1,638,600	1,668,600	(30,000)	1,569,845
Tobacco Tax	105,916	101,002	4,914	93,693	232,000	225,000	7,000	215,543
Other Taxes	5,038	5,642	(604)	4,707	10,875	10,948	(73)	11,664
Subtotal: Other Taxes	1,199,618	1,192,627	6,991	1,155,831	2,779,562	2,765,298	14,264	2,688,498
Fees and Other Revenue								
Fines and Costs and Other Legal	24,704	24,938	(234)	20,527	50,321	50,190	131	44,729
Minerals and Petroleum	16,332	12,569	3,763	10,841	21,721	12,261	9,460	17,361
Automobile and Motor Carrier Licences and Fees	67,970	65,039	2,931	66,328	118,026	118,026	-	126,925
Parks: Forestry and Other Conservation	13,459	8,650	4,809	12,764	30,543	30,144	399	34,080
Water Power Rentals	53,669	51,618	2,051	56,226	114,000	110,000	4,000	114,745
Service Fees and Other Miscellaneous Charges	46,405	46,918	(513)	46,982	131,250	128,509	2,741	141,071
Revenue Sharing from SOAs	12,558	12,716	(158)	11,940	25,430	25,430	-	24,380
Subtotal: Fees and Other Revenue	235,097	222,448	12,649	225,608	491,291	474,560	16,731	503,291
Federal Transfers								
Equalization	1,088,506	1,088,506	-	1,031,697	2,001,517	2,001,500	17	2,063,394
Canada Health Transfer (CHT)	476,679	476,679	-	451,663	953,358	953,358	-	897,402
Canada Social Transfer (CST)	202,349	202,349	-	196,170	404,698	404,698	-	392,184
Health Funds	4,803	4,409	394	7,480	12,055	9,038	3,017	12,357
Infrastructure Renewal	239	-	239	-	154,322	150,822	3,500	55,441
Manitoba Floodway Expansion	3,463	7,000	(3,537)	3,490	39,869	39,869	-	35,571
Shared Cost and Other Transfers	90,284	86,063	4,221	81,045	208,025	191,610	16,415	219,812
Subtotal: Federal Transfers	1,866,323	1,865,006	1,317	1,771,545	3,773,844	3,750,895	22,949	3,676,161
Net Income of Government								
Business Enterprises (GBEs)								
Manitoba Liquor Control Commission	84,300	83,100	1,200	78,200	246,800	246,800	-	233,677
Manitoba Lotteries Corporation	154,850	154,850	-	155,800	312,700	312,700	-	306,673
Subtotal: Net Income of GBEs	239,150	237,950	1,200	234,000	559,500	559,500	-	540,350
Total Revenue	4,858,228	4,832,983	25,245	4,683,531	10,501,897	10,217,653	284,244	10,066,762

2010/11 Core Government Expenditure by Sector/Department
UNAUDITED

Appendix II

(\$000s)	Year-to-Date to September 30				Full Year			
	2010/11			2009/10 Actual	2010/11			Actual 2009/10 ²
	Actual	Estimated	Variance		Forecast	Budget ¹	Variance	
Health and Healthy Living								
Health	2,264,558	2,250,819	13,739	2,173,536	4,748,949	4,677,818	71,131	4,470,131
Healthy Living, Youth and Seniors	37,668	41,934	(4,266)	37,371	76,139	76,635	(496)	71,710
Total Health and Healthy Living	2,302,226	2,292,753	9,473	2,210,907	4,825,088	4,754,453	70,635	4,541,841
Education								
Advanced Education and Literacy	323,998	325,678	(1,680)	315,790	625,263	627,157	(1,894)	599,652
Education	795,481	814,823	(19,342)	765,971	1,508,402	1,506,790	1,612	1,464,238
Total Education	1,119,479	1,140,501	(21,022)	1,081,761	2,133,665	2,133,947	(282)	2,063,890
Family Services and Consumer Affairs	642,610	656,111	(13,501)	618,127	1,374,162	1,307,034	67,128	1,290,656
Community, Economic and Resource Development								
Aboriginal and Northern Affairs	19,156	20,514	(1,358)	20,072	37,434	37,357	77	41,045
Agriculture, Food and Rural Initiatives	60,690	71,098	(10,408)	52,543	212,757	216,894	(4,137)	219,879
Conservation	68,992	69,425	(433)	73,136	127,450	127,296	154	134,420
Entrepreneurship, Training and Trade	57,483	61,385	(3,902)	53,487	149,675	150,909	(1,234)	155,204
Housing and Community Development	27,465	27,992	(527)	24,506	71,601	72,336	(735)	68,810
Infrastructure and Transportation	251,690	266,711	(15,021)	250,422	632,350	629,506	2,844	575,147
Innovation, Energy and Mines	42,981	39,946	3,035	38,342	78,263	76,105	2,158	76,188
Local Government	142,053	151,406	(9,353)	130,408	251,921	256,629	(4,708)	247,604
Water Stewardship	14,949	16,750	(1,801)	15,346	33,255	33,926	(671)	32,317
Total Community, Economic and Resource Development	685,459	725,227	(39,768)	658,262	1,594,706	1,600,958	(6,252)	1,550,614
Justice and Other Expenditures								
Legislative Assembly	17,990	18,894	(904)	17,228	39,363	39,263	100	36,098
Executive Council	2,049	1,907	142	1,976	3,938	4,027	(89)	4,118
Civil Service Commission	9,373	9,575	(202)	10,420	20,710	20,880	(170)	20,400
Culture, Heritage and Tourism	34,372	35,464	(1,092)	36,756	63,418	63,458	(40)	68,799
Employee Pensions and Other Costs	(2,722)	(3,101)	379	(3,219)	18,060	18,060	-	8,059
Finance	63,066	63,765	(699)	63,215	89,413	90,148	(735)	87,256
Justice	152,368	152,921	(553)	146,930	431,453	407,034	24,419	408,941
Labour and Immigration	25,307	25,807	(500)	23,759	60,680	61,132	(452)	58,296
Sport	6,302	6,302	-	8,686	11,919	11,919	-	11,914
Enabling Appropriations	2,083	2,814	(731)	1,367	11,066	11,328	(262)	2,932
Other Appropriations	31,965	33,808	(1,843)	20,719	105,707	30,151	75,556	173,876
Total Justice and Other Expenditures	342,153	348,156	(6,003)	327,837	855,727	757,400	98,327	880,689
Less: Year-End Lapse	-	-	-	-	(32,500)	(65,000)	32,500	-
Debt Servicing Costs	98,997	103,828	(4,831)	102,903	248,285	265,785	(17,500)	240,194
Total Expenditure	5,190,924	5,266,576	(75,652)	4,999,797	10,999,133	10,754,577	244,556	10,567,884
Subtract: Total Expenditure Estimates(above) from								
Total Revenue Estimate (Appendix I)	4,858,228	4,832,983	25,245	4,683,531	10,501,897	10,217,653	284,244	10,066,762
Net Result for the Year (before transfers)	(332,696)	(433,593)	100,897	(316,267)	(497,236)	(536,924)	39,688	(501,122)
Transfer to Debt Retirement	-	-	-	-	-	-	-	(20,000)
Transfer from / (to) Fiscal Stabilization	-	-	-	-	38,490	38,490	-	57,186
Net Result for the Year	(332,696)	(433,593)	100,897	(316,267)	(458,746)	(498,434)	39,688	(463,936)

1. Budget figures are adjusted to include Enabling Appropriations

2. For comparative purposes the 2009/10 Actual has been re-stated to reflect the 2010/11 appropriation structure.

2010/11 Core Government Capital Investment
UNAUDITED

Appendix III

(\$000s)	Year-to-Date to September 30				Full Year			
	2010/11			2009/10 Actual	2010/11			Actual 2009/10
	Actual	Estimated	Variance		Forecast	Budget	Variance	
General Assets								
Government Services Capital Projects	47,699	66,897	(19,198)	19,057	147,941	160,482	(12,541)	95,219
Transportation Equipment and Aircraft	15,854	18,783	(2,929)	6,687	58,814	58,814	-	24,733
Information Technology Projects	7,768	9,507	(1,739)	4,071	25,357	23,114	2,243	17,407
Other Equipment and Buildings	538	2,292	(1,754)	335	6,304	6,789	(485)	2,966
	<u>71,859</u>	<u>97,479</u>	<u>(25,620)</u>	<u>30,150</u>	<u>238,416</u>	<u>249,199</u>	<u>(10,783)</u>	<u>140,325</u>
Infrastructure Assets								
Provincial Roads, Highways and Airport Infrastructure	178,554	239,373	(60,819)	225,068	367,325	367,075	250	370,220
Manitoba Floodway Expansion	48,261	50,000	(1,739)	21,904	153,565	153,565	-	86,618
Water Control Infrastructure	1,349	2,751	(1,402)	3,640	16,634	10,600	6,034	10,344
Parks, Cottage and Camping Projects	3,954	5,536	(1,582)	3,921	16,547	16,757	(210)	14,505
	<u>232,118</u>	<u>297,660</u>	<u>(65,542)</u>	<u>254,533</u>	<u>554,071</u>	<u>547,997</u>	<u>6,074</u>	<u>481,687</u>
Total Capital Investment	<u>303,977</u>	<u>395,139</u>	<u>(91,162)</u>	<u>284,683</u>	<u>792,487</u>	<u>797,196</u>	<u>(4,709)</u>	<u>622,012</u>