



**Legislative Assembly of Manitoba**

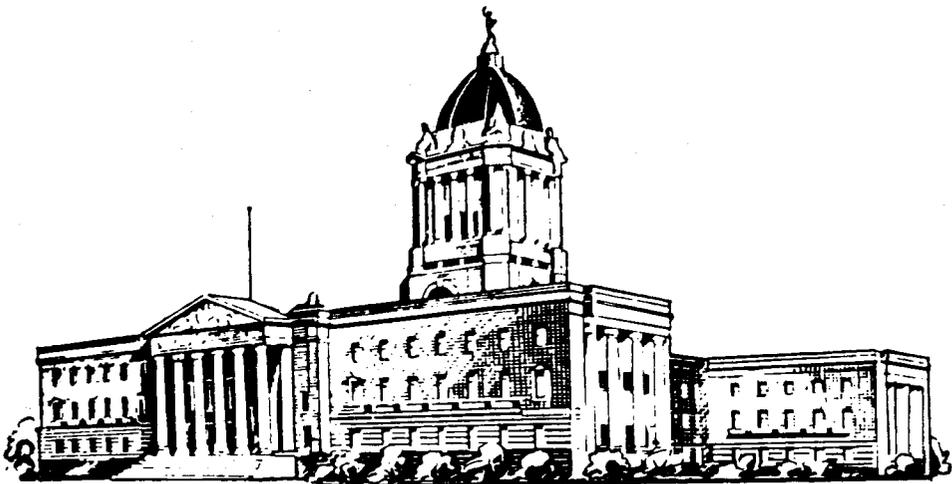
**HEARING OF THE STANDING COMMITTEE**

**ON**

**PUBLIC ACCOUNTS**

**Chairman**

**Mr. David Blake  
Constituency of Minnedosa**



**Tuesday, April 26, 1977 10:00 a.m.**

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**TIME: 10: 00 a.m.**

**CHAIRMAN, Mr. David Blake.**

**MR. CHAIRMAN:** We'll get the meeting under way. The first item for discussion at this morning's meeting is the report of the Provincial Auditor. If it's the wish of the Committee we'll proceed with the report page by page.

**A MEMBER:** Page by page.

**MR. CHAIRMAN:** Page by page. The report of the Provincial Auditor for the year ending March 31st, 1976, Page 1—pass; Page 2—pass; Page 3—pass; Page 4. Mr. Lyon.

**MR. LYON:** Mr. Chairman, there's an item about two-thirds of the way down the page, "Capital Advances to the Leaf Rapids Development Corporation were reduced by \$11.9 million and the amount transferred to Capital Division Investments at \$6.8 million fixed interest debentures, \$2.5 million income debentures and \$2.6 million preferred shares." My understanding and, Mr. Chairman, perhaps the Provincial Auditor can confirm it, my understanding is that that amount is transferred to the Public Debt on a non self-sustaining basis. Is that true?

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** No. There are debentures in there that the interest is paid for by, actually it will be received from the Leaf Rapids Local Government District in the townsite. So to the extent of the debentures, that's not a charge on the Consolidated Fund, the remainder is.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** I was just asking, the debentures are chargeable — the fixed interest debentures — therefore our charge is on the corporation . . .

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** . . . and the balance is, even the preferred shares, are the general debt.

**MR. ZIPRICK:** Yes. The preferred shares are the general debt. The income debentures, if there was going to be any income come in, it will come as income to the province but otherwise . . .

**MR. CHERNIACK:** The general revenue.

**MR. ZIPRICK:** Yes, the general revenue, but otherwise the debt is being carried by the province.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** The amount transferred as debt, what would that amount be?

**MR. ZIPRICK:** Well, the \$6.8 million fixed income debentures, that's being carried by outside of the Consolidated Fund. So really the remainder is being serviced from the Consolidated Fund, except if there is going to be any return on the income debentures or any return on shares at any time.

**MR. CHAIRMAN:** Mr. Spivak.

**MR. SPIVAK:** Well, not on this item but on the next one, "Capital Advances to the Manitoba Forestry Resources Ltd. were reduced by \$1.5 million by a repayment to the Special Municipal Loan and General Emergency Fund from additional capital borrowing." I wonder if the Auditor is in a position and the Committee will entertain a common front end with respect to that repayment as to whether the Special Municipal Loan and General Emergency Fund was set up for capital advances to be made to Manitoba Forestry Resources Ltd.

**MR. ZIPRICK:** Well, we checked when the advance was made and we're satisfied that it was legally made from the Fund. So the description of the Fund is sufficiently broad that this kind of advance could be made.

**MR. SPIVAK:** The description of the Special Municipal Loan and General Emergency Fund.

**MR. ZIPRICK:** That's right.

**MR. SPIVAK:** But if I'm correct in relation to sort of general comments with respect to this report and probably something that we'll get into further, and I'm not at this point intending to develop the thesis that I think has been developed by you, the question of appropriateness of allocation of moneys whether it be in the capital area or in the general revenue and expenditure area under the Consolidated Fund is an issue, and I wonder if the question of legality isn't the issue at this point rather than the question of appropriateness with being able to simply dip into one Fund, to be able to pay out moneys for deficits that have occurred in other areas. I mean, how do you justify the Special Municipal Loan and General Emergency Fund being used to support the Manitoba Forestry Resources Ltd., under what basis? Certainly that wasn't the reason for the Fund being set up in the first place.

**MR. ZIPRICK:** Well, the legislation is fairly broad and if it can legally be paid within the terms of that legislation obviously that's why it was set up, or otherwise it should have been more restrictive.

**MR. SPIVAK:** But the problem we face as legislators is that when we approved the acceptance of the Fund which may give wide powers the aim and purpose is known, it's not to be a general Fund to be used by government for whatever purposes they think that they can bring forward at any time. And the question at this point and the difficulty that we have, if you're not going to suggest to us that this is appropriate in terms of your function, how are we going to know — the legality of my questioning —

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there is a capacity for the government to borrow from the Special Municipal Loan Fund, but certainly insofar as I know the Loan Fund was never set up for the purpose of loaning money to ManFor or to any other Crown corporation.

**MR. ZIPRICK:** Well, I'd have to take a look at the Act again. But it has fairly broad conditions and I take it that when the Legislature considered it, in its wisdom found it acceptable to be that broad. So there's no way that the Auditor could take issue with this kind of situation other than we get into the other area where the definitions are fairly general and I can't distinguish between one and the other. This is a specific Fund that was set up. It has legislative definition and any payments out of it within that legislative definition is certainly what I feel within the intent of the Act.

**MR. SPIVAK:** Do you know what the money was paid to ManFor for, or is there only a question that you know that it was legal?

**MR. ZIPRICK:** No, it was paid for various working capital advances, and it was paid on a short-term basis, then the money was returned to the Fund and advances were made from capital authority to cover it. So really there was no change as far as ManFor was concerned, and only a different authority was used.

Now I'm not sure whether the reason this Fund was used was because there was a lack of capital authority at that time or not. That's something maybe Finance could elaborate on.

**MR. SPIVAK:** Well, the thing that strikes me is that the Special Municipal Loan and General Emergency Fund was never set up to advance money to a Crown corporation even for a short period of time, notwithstanding the fact that there may be a legal authority to do it. It would seem to me that this is just a violation of the purpose for which that Fund was set up, and if a lack of capacity on the part of the government to raise money for — even in a short term — for Manitoba Forestry Resources Limited, there are other vehicles.

And the problem I have at this point and the problem we have with all the government administration, is that the legality of the issues are in question, but the propriety really is an issue, and it's a question again as to whether the function of the Auditor is to bring to us — because he's the watchdog for the Legislature — these matters with the appropriate comments with respect to it; because we're not privy to the motivation or the reasons or the purposes for why things happen. We only know the end results when the specifics are brought to our attention, and this is not meant as a criticism to the Auditor, it's a criticism of really our function. Because I think that we have a very legitimate argument to suggest that the government by dipping into this Fund for even a short-term purpose is, in effect, violating the meaning and the tenor and the intent of the Special Municipal Loan and General Emergency Fund when it was brought into the Legislature. And it would seem to me that there has to be some comment by someone to indicate that directly and the purposes and the aims. And there has to be some check and balance in government so that they know that the Auditor will come forward to Public Accounts Committee and say that although there's a legality here, in the sense that this is something that is within their capacity to do, this is really in violation of what the express intent of the Legislature was.

**MR. ZIPRICK:** Well, you know, I would agree with you to a point. I have made observations with regard to the other sections as between capital and the general use of funds but, in this case, a specific fund was set up. A certain amount of money was set aside by an act of the Legislature and if the payment falls within the scriptum of the Act then it's quite . . . You could argue and say, "Well, I could start putting my own interpretations as to what it was intended to be used for." But I think that this area doesn't give me nearly the problem that the other area does. And any time that this specific legislation is passed, I think that it is up to the legislators to ensure that the intent is fairly well spelled out and I guess that applies to other areas. But this, if there is full disclosure so that it was not done under the table; if there is full disclosure of what was being done and what the fund was being used for and if it's felt that the fund should not be used for that purpose, then there should be an amendment to the Act.

**MR. CHAIRMAN:** Mr. McGill, on the same point?

**MR. MCGILL:** Mr. Chairman, not on the same point but on the same page.

**MR. CHAIRMAN:** Did you want to reply to that particular point, Mr. Cherniack?

**MR. CHERNIACK:** Mr. Chairman, I wanted to speak on it but not to reply to it. I just wanted to point out that the reason this matter has come up is the Auditor thought it was advisable to make mention of it on Page 4, about two-thirds of the way down, so that obviously there is his indication that it is a significant adjustment. That's what he calls it; these are not my words, they are his words. And they are supported by the fact that if we look at the Public Accounts that we probably will never get to, but nevertheless on Page 227 of the Public Accounts for the last year it states there that it shows an advance by O.C. of a million dollars. There is a principal repayment also shown of \$2.5 million. By simple arithmetic that confirms the statement made by the Auditor on Page 4. Now, let's just for the record recall that this fund used to be called the Reserve for War and Post-War Emergencies. It was set up by, I believe, Mr. Garson, somewhere around 1948, about thirty years ago. And it was augmented, as I recall it, by this government a few years ago, and the name was changed and I think

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the powers were changed only to the extent that municipalities were brought into the scope of those potential recipients. But the fund was set up and has been used, I believe throughout all its time, for the welfare and employment of the people of the province, which means that it is broad and general and enabling to the government to make use of it when the government in its wisdom saw fit so to do.

And the only thing that is important at this kind of a meeting is that it is properly recorded; that it is checked by the Auditor; it is approved in accordance with legislation passed by the Legislature; that it is recorded so that it is not concealed and it is brought to our attention so that it could have been raised this morning and indeed was.

**MR. MCGILL:** Mr. Chairman, I wanted to refer to an amount listed under Advances and Other Receivables for St. Boniface Sanatorium. There is a total of \$3.5 million listed here. I wonder if the Auditor could tell us what the terms are with respect to the repayment of that advance to St. Boniface.

**MR. ZIPRICK:** I haven't got the particulars here with me. I think we dealt with them last year. Oh, isn't that paid through the *per diem*?

**MR. MILLER:** The debt is covered off by the *per diem* over the years.

**MR. ZIPRICK:** The St. Amant Ward gets a grant of *per diem* from the province and then repays it, but there is a contractual obligation to repay and there is also a — not really a mortgage — but a protection to ensure that the property would not be disposed of. So there are conditions but I haven't got the particulars with me.

**MR. MILLER:** Mr. Chairman, also isn't it the case that by doing it this way we get federal cost-sharing in the building itself because it is part of the *per diem* which is shared by the Federal Government as part of the *per diem* cost. So that whatever the percentage is that the Federal Government is to pay, it goes towards the retirement of the debt.

**MR. MCGILL:** Mr. Chairman I think last year there was a discussion on this item and it was indicated that there would be regular repayment amounts. It would appear to me that there has not been any reduction of the amount, and while we did discuss the terms of the agreement between the province and the Sanatorium, I think there was no actual presentation of those terms at the meeting. As a matter of fact, I believe there was some indication from one of members of the Committee that this could only be received by this Committee through an Order for Return.

**MR. ZIPRICK:** I'm not sure . . . we could get the particulars. I haven't got the particulars here but I thought we supplied the information last year. But there would be no difficulty in getting the information on this, in accordance with the terms of the contract.

**MR. MCGILL:** Mr. Chairman, I think that would be helpful. I believe there was some indication some details might be supplied but so far as I'm aware I don't think we got to that point, subsequently, in the committee meetings. I understand from the comment from one of your staff that there have been repayments made on this account and that this \$.1 million Net Advances is a net figure for the year. Is that correct?

**MR. ZIPRICK:** Yes, it could be. See, there was a net increase. There would be probably repayments in accordance with the terms of the contract but there would be additional advances with a net effect of really \$100,000 increase in the advance. But we can get the particulars of it.

**MR. CHAIRMAN:** Thank you. Page 5—pass. Mr. Spivak.

**MR. SPIVAK:** Mr. Chairman, going back to the bottom of Page 4 and Page 5, the Auditor states the principal repayment and the interest charges for some of the advances are dependent on total or partial funding from feature appropriations of the Consolidated Fund. And the balance on March 31st, 1976, for the largest such advances were as follows, and then he listed them. This, I believe, is a new feature. This was not contained in the last report, in the sense that the indication of those specific larger advances which will now have to be paid out of the Consolidated Fund. Am I correct on this?

**MR. ZIPRICK:** Yes, either in total or in part; mainly in part. For example, the Manitoba Agricultural Credit Corporation looks after all of its principal and most of its interest. About half of its interest is subsidized from the Consolidated Fund. The Manitoba Housing and Renewal Corporation — there is an annual subsidy to assist in the repayment of its principal, interest and other operating losses. — (Interjection) — Yes. It's a shaling proposition.

**MR. SPIVAK:** There is approximately about \$135 million here in the various amounts. Now, of this \$135 million, you're not suggesting that this has to be paid out of the Consolidated Fund; you're saying part of the interest and part of the principal payment of this \$135 million, more or less — or are you saying the \$135 million has to be paid out?

**MR. ZIPRICK:** No. I'm saying part of it, principal and interest. We put it in there to just ensure that it is appreciated that a certain amount of this is being borne from the Consolidated Fund. So although it's shown as a Receivable, some of it will be borne from the Consolidated Fund.

**MR. SPIVAK:** But at this point would it not be important for us to know, specifically, of the amounts that have been advanced right to date, how much will have to be borne in the future out of the Consolidated Fund, both for principal and interest? That is, the aggregate sums of money that will have to be, in fact, paid out of the Consolidated Fund in the years to come. Now, you've got \$135 million and you are not suggesting \$135 million has to be paid and these are only some examples, they are not all I gather from what you said.

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**MR. ZIPRICK:** These are all the ones that require some form of subsidy. But to calculate the subsidies . . . for example the Manitoba Housing and Renewal Corporation, the interest and principal payments are paid for by the Housing authorities and their operating costs, they've got revenue, so they arrive at a net loss. Now the net loss is what is subsidized by the province and shared 50-50 with Canada. So you can't . . . each year it will vary. All that is being pointed out is that there is a subsidy element, in that they are not completely recoverable or completely self-sustaining. But to determine the amount, you can't do it because each year it varies.

**MR. SPIVAK:** Well, let's go to the Communities Economic Development Fund. The \$2.2 million there, is there any potential for recovery or is that going to be a complete subsidy? Or is that going to be covered out of the Consolidated Fund?

**MR. ZIPRICK:** There is potential for recovery, but just how much is not known.

**MR. SPIVAK:** The difficulty here is that — and I appreciate the information that is being furnished — but in the case of \$135 million interest on money, no matter how you amortize this with respect to the matter of payment and no matter what degree of cost sharing may occur with the Federal Government in certain areas, from our point of view, this is interesting and it really isn't insignificant, but there is really nothing we can do with it in terms of knowing in future what really we are going to be paying for. We should have some indication, I think, of the probabilities here with respect to these sums, as to whether they are going to be recoverable one way or the other.

As an example, the whole question of the Churchill Pre-Fab facility which would be included in that \$35.1 million, I would think, of the Manitoba Housing and Renewal Corporation, in the sense that money has in fact been advanced, which is to be paid back, I assume, either out of general revenues, out of the Consolidated Fund, and the Minister suggested out of some support by the Federal Government — although I don't know whether that would be forthcoming or not — and we should at this point know, I would think, in some way what the likely loss will be, that is the likely pick-up is going to have to be out of general revenues. Because the taxpayer is really going to be picking that up. It's not as if it is going to be self-sustaining in any way or it is going to be paid for by others. It is going to be paid by the taxpayers out of general revenues and out of taxation.

**MR. ZIPRICK:** Well the only way there could be added information is to indicate how much the annual subsidy for each one of those was. Now the subsidy may cover other items in addition to the amount of receivables. But each year in the appropriations there is a provision to subsidize these organizations. The only thing that could be added here is to indicate the amount of the subsidy that's being provided for each one of these organizations in that year.

**MR. SPIVAK:** Do you have those figures for this year, the \$135 million, what the subsidy is?

**MR. ZIPRICK:** The subsidies, yes they are in the appropriations and they are part of the Public Accounts expenditures. But, you know, they could be isolated. For example, for the Manitoba Housing and Renewal Corporation, we deal more extensively on Page 9 and the subsidy is indicated there. In the middle of the page, subsidies by the Manitoba Housing and Renewal Corporation chargeable to the province amounted to \$5.6 million for the year ended March 31st, 1976; \$3.6 million for the previous year. So that's the amount of subsidy that was being provided in this year for the Housing Corporation. And there will be subsidies continued each year associated with this program because it is a built-in subsidy requirement.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Chairman, I just thought I would add to the information being given to Mr Spivak, to point out that on Page 43 of our Estimates for 1976-77, it indicates on the left hand side that for the year ending March 31st, for the Manitoba Development Corporation there is an item of \$287,500.00. And for the year ending March 31st, 1977, there is an item of \$537,500, that is out of the current Estimates, and it reads: "Provides for debt service charges payable to the Department of Finance re funds provided for purchase of shares of the Manitoba Development Corporation and for product support costs of Saunders Aircraft Corporation Limited."

I would point out also, that in the book we're looking at, if you look at Page 15, under the Department of Health and Social Development — I'm sorry, under the Department of Mines Resources and Environmental Management, there is an item: "A Special Warrant to provide funds for a grant to reimburse the Manitoba Development Corporation for interest expense relating to the Corporation's equity investments and for payment of the operating costs of the Communities Economic Development Fund for the year ended March 31st, 1975 — \$2,371,371.00."

I really don't think that the Auditor is doing anything but giving all the information. It is all there, all you have to do is to read and find it. I think that he ought not to be criticized on the basis that he is not giving enough information. I think it is all here.

**MR. SPIVAK:** Mr. Chairman, every year the Auditor presents more information to us and to the extent I think he has to be praised and I think the Committee should indicate its general acceptance of this. This is actually more information than the previous year. But you see, the problem is the consolidation of all the information that's contained here. It is interesting what Mr. Cherniack mentioned. He mentioned \$2,371,371 for the Department of Mines and Environmental Management dealing with the Manitoba Development Corporation, the Communities Economic Development

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Fund, yet we still have 2.2, at the time that this has already been paid, still owing as an advance to the Communities Economic Development Fund. And the question of the degree of subsidization there is also important.

What I am saying is that really to present a very clear picture — and this is what I would recommend and hope would be considered in the future — would be to indicate on the advances the probable subsidies that will have to be paid at least in the year to come. The figures that Mr. Cherniack mentions are not the figures relating to the advances that stand on the books. Those are for already what has happened and they in turn pay part of the principal that has already been owing and the interest charges from before.

The \$230,000 that is shown for the Manitoba Development Corporation is only the interest on the \$5 million advances — the bulk of which is that.

All I am indicating at this point is, I think, the requirement at least to know the degree of subsidy so that at least we are in a position to understand the probable charges that will occur in future, recognizing that he is not a mind reader and he can't basically predict the future and know for sure what the economy will be like or what will take place with respect to some of these ventures. But at least some indication in a more specific way. This is not meant as a criticism, it's meant in the hope that this will be a matter that will be considered in the future.

**MR. ZIPRICK:** This would present no difficulty, to set the subsidies along side of it. We'll note that point down and we will take it into consideration for next year.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Chairman, we're dealing with the report of the Auditor for the year ended March 31st, 1976. The points mentioned by Mr. Spivak, I think, are proper for the Estimates review, when the items such as I have read come up under Estimates review with the Minister and usually support staff available to answer those questions.

Now I don't know whether it is the job — and I really question that Mr. Ziprick said we will consider it for next year. Is the suggestion that the Auditor's report for a closed year will include prognostications, forecasts, guesses to what the future will be?

**MR. ZIPRICK:** No, no, it is just equivalent subsidy for 1976. That is the best we could put it down. In other words, alongside here we would just match up the subsidy for the same year, not future years.

**MR. CHERNIACK:** What Mr. Ziprick says is that he will show a column that in a certain year there was a certain subsidy available. Now if he is going to start giving that kind of duplicating information — because it is in the Public Accounts, I assume it is in the Public Accounts — then what information is there that is useful if all we know, a fact which is available in the Public Accounts and which is really not related to the amount owing nor to the future? Now it is all very well to put it in if he wants to, it is his report, but will he not be confusing the issue rather than giving a straightforward Auditor's report?

I don't know, it seems to me, Mr. Chairman, that members of the Legislature who need information know how to get it and they know that Mr. Ziprick's door is open to them to give them information. We also know and all members of the Legislature know that there are prospectuses that are filed at different occasions where information is given to potential creditors of the government, which are very carefully reviewed and required by various authorities such as SEC in the United States. Now, what more is needed to help Mr. Spivak's problem of trying to understand these accounts? Will his problem be eased by putting in the information of what happened in that year, which information, I assume, is readily available in the Public Accounts?

**MR. CHAIRMAN:** Page 5—pass; Page 6—pass; Page 7, Mr. Lyon.

**MR. LYON:** Mr. Chairman, Provision for Premiums on U.S. Funds. I wonder if Mr. Ziprick is in a position to — and I am sure he wouldn't be, at the moment, without looking through all of the borrowings of the province — but to indicate to us what the devaluation of the Canadian dollar and the fluctuations in foreign dollars, foreign currencies in which the government has borrowed or in which the government has guaranteed debts of Crown corporations, what these various fluctuations, down of the Canadian dollar and in other cases upward of other currencies, what the net result will be in terms of the total indebtedness of the various borrowings and the interest charges vis-a-vis the present situation. I realize that is a difficult question to answer off the top of his head. If he can give us any general enlightenment, however, it will be helpful.

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** It hasn't been a practice to determine as at the fiscal year what the amount would be based on the currency evaluation as at that particular year. It would be a fairly lengthy exercise and one that wouldn't be too meaningful in that it immediately changes, the situation changes. The practice has always been that any borrowing is set up at the date of conversion and this \$10 million is the difference between the money that was received from the U.S. in excess of the par value in U.S. dollars.

Now if it is the other way around, it is set up as a discount item and is amortized over the life of the bond. So that if there is a discount it is set up and charged each year and amortized over the life of the bond. If there is a premium it is put into this reserve account.

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Each fiscal year, to value and determine the position — it is being done in industry on financial statements, but I don't know just how useful it would be over here to determine the value of the Canadian dollar vis-a-vis the foreign currency and see what the liability actually was.

**MR. LYON:** Mr. Chairman, this annual concordance is done only with respect to funds borrowed in United States dollars, it is not done with respect to other foreign currency.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** I understand, Mr. Chairman, if I may, when the borrowing is done then the conversion is made into Canadian and that's the time when it is reflected, as at the time of the transfer of cash. And then it stays until it is repaid.

**MR. LYON:** Until it is repaid.

**MR. CHERNIACK:** Yes.

**MR. LYON:** But the fluctuations during the term . . .

**MR. CHERNIACK:** Cannot be reflected. May I just elaborate, Mr. Chairman. It cannot be reflected because it is a variable. Really every day it changes. For example, and I do recall this and the reason I don't think it is a useful exercise is that shortly after we came into government, a borrowing from Germany, a deutsche-mark borrowing of three year duration which had been arranged by the previous Minister of Finance, came due and at that time the deutsche-mark had hardened to the extent where there was quite a loss that would have taken place had we had to pay it off in Canadian or U.S. dollars. We were able to negotiate a new loan for, I believe, seven years in Germany, which meant that we would repay the three year borrowing in deutsche-mark and were therefore able to spread the loss over ten years rather than three. It was a good transaction in that the interest rate over the ten year period did take into account, for our purposes, the loss in the value of the deutsche-mark having gone up and therefore it would have been really, I think, a distortion to predict year by year what would have happened if we had had to pay it off immediately because we didn't have to. And since we didn't have to, it would have . . . there would have been troughs and peaks that were not realistic because the money wasn't used. So what is the point of guessing what it would be worth in case it was due because provinces don't go bankrupt and don't have to . . .

**MR. LYON:** Not as yet anyway.

**MR. CHERNIACK:** Well not as long as we are in government, you know that. There really is no purpose in that kind of an exercise because the future will certainly determine in a radical way what will actually happen to the funds.

**MR. LYON:** As Mr. Ziprick indicated, the practice is not uncommon in the private sector in corporate borrowings and so on, to show the actual indebtedness as at the year end with respect to longer term borrowings so that the shareholders and the public may be aware.

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** Yes That is pretty standard and we do that for instance for the Manitoba Hydro. Now borrowing in the U.S. market, the Securities Exchange Commission insists that there has got to be a valuation as at a cut-off point of the borrowings for various — like Hydro or these other corporations — but they have never found it useful to be done for the government. So as yet there hasn't been that requirement. Now, if the requirement for prospectuses becomes that an evaluation will be necessary, something may be considered.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** Mr. Chairman, would Mr. Ziprick have any opinion on the advisability of that kind of disclosure in order to give really a more accurate picture of what the obligation of the province or of its creatures would be at each year end? Would there be any objection to that kind of presentation being made in books of accounts of the province?

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** No, there would be no objection. There is a fair amount of work involved. None of the other provinces do it. The Federal Government doesn't do it. It is something that may be started in the future. It is something that probably could be considered, but there is a fair amount of work involved in determining the position and it would be sort of a trade-off, the work against the benefit, in that it may change so quickly after the year end. And if we had the position year at this point, it may be completely the reverse when we are discussing it.

**MR. LYON:** But for the purposes, Mr. Ziprick, of the prospectuses for Crown corporations, it is done in that fashion you say, by requirement of the Securities and Exchange Commission?

**MR. ZIPRICK:** It is, yes.

**MR. LYON:** Yes. So that the half of the work really is already done, more than half of the work. It is already being done.

**MR. ZIPRICK:** Yes. As far as Hydro is concerned, it is being done, yes.

**MR. CHAIRMAN:** Page 7. Mr. Spivak.

**MR. SPIVAK:** I think it is rather appropriate here that we have Mr. Ziprick comment on the . . . question of public debt. There has been a fair amount of confusion generated in the last little while. There is a reference here in his report as to the nature of the public debt. He shows \$558.9 self-sustaining and \$574.1 as general. Does he consider that this represents the public debt of the

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province?

**MR. ZIPRICK:** Yes, that is the direct public debt of the province, and it is allocated between self-sustaining and general on the basis of The Financial Administration Act.

**MR. SPIVAK:** Which means of the following \$558.9 self-sustaining, it means that it should be self-liquidating in the normal course of events, and the general \$574.1 has to be paid out by the province out of General Revenues over a period of time, both interest and principal payment or carried.

**MR. ZIPRICK:** That's right. That's right.

**MR. SPIVAK:** Under The Financial Administration Act, under Section 76(1), "The Lieutenant-Governor-in-Council may declare any provincial securities in respect of which the principal sum or the provision for the sinking fund or the interest exchange constitute a charge of a revenue vision to be self-sustaining debt for the purposes of this Act."

In other words the Cabinet really have the authority to allocate under this section what matters they would consider to be self-sustaining: And I ask him whether that authority has been exercised in the past year, allocating part of the debt and placing it as self-sustaining.

**MR. ZIPRICK:** No, well, all debt that is not serviced by outside of the Consolidated Fund must be self-sustaining or we would certainly take an objection to the situation if there were any debts shown as self-sustaining that had no self-sustaining features. In other words, it must be self-sustaining.

**MR. SPIVAK:** But under 76(1) of The Financial Administration Act, the Cabinet have the authority to declare any provincial securities as being part of the self-sustaining debt. I am really asking him whether this has happened and whether he has ever had to question that allocation by Cabinet.

**MR. ZIPRICK:** I think if you will read The Financial Administration Act further down, there are conditions attached, that they just can't declare it self-sustaining just because they just feel like it. It has got to meet a condition whereby that the interest is paid outside of the Consolidated Fund and there is provision for debt repayment outside of the Consolidated Fund. So there are conditions attached and they just can't say, "Well, we'll just move up certain debt and call it general debt or self-sustaining debt, but continue to fund it from the Consolidated Fund."

**MR. SPIVAK:** I appreciate that. What I am really asking, then is, you had no reason to comment to the Cabinet on any provision that they have made for any debt that they have classified as self-sustaining in this past year?

**MR. ZIPRICK:** No, there are two items that there was some concern about the technicality that are in general debt that really meet all the requirements of self-sustaining debt and they are in this total as self-sustaining, and that is \$45 million to ManFor on which they are required to pay the interest and also take care of the principal. And then the one we just talked about, \$6.8 million of the Leaf Rapids Corporation debt.

Now the practice has been that until the debt is funded, in other words through debentures, it has generally been left in the general debt. Now this \$45 million and \$6.8 million have not as yet been funded by debentures, but are just funded by treasury bills, and as a result it has not been declared self-sustaining. I am told that when the \$45 million and the \$6.8 million will be funded by debentures, at that point the orders will specify that these are self-sustaining. So we made the adjustment in here and the way it is, we moved that into self-sustaining, that \$45 million and \$6.8 million, so that to that extent what we have in here does not agree with the Public Accounts. The Public Accounts' general debt is higher by \$51.8 million.

**MR. SPIVAK:** Then so far as you are concerned, in terms of your position based on the Auditor's report which is of last year, the debt of the province, the public debt, that which is not self-sustaining, that which is not self-liquidating, if \$574 million?

**MR. ZIPRICK:** That's right. That's right, \$574.1 million. That's right.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Well, there are several points that came up, Mr. Chairman, that I find Firstly, interesting. apparently from what Mr. Ziprick says, that contrary to the opinion of the — shall I say the government? — this \$51.8 million was put into self-sustaining rather than general because Mr. Ziprick thought it belonged in self-sustaining, but that the government records show it to be a general debt, this \$51.8 million.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** So I find that interesting because of the fact that . . . well, I don't want to quarrel as to between the two, but as a result of the difference of opinion, Mr. Ziprick shows a higher self-sustaining and therefore a lower general debt than the books of the province show.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** Yes. Well, that's interesting.

The other point, Mr. Chairman, is that . . . I want to clear this with Mr. Ziprick. I read this statement of public debt, this general \$574.1 million, as being gross general.

**MR. ZIPRICK:** That's the gross funded debt. Now, to really get at the net funded debt, you should take the Sinking Fund off . . .

**MR. CHERNIACK:** Yes.

**MR. ZIPRICK:** . . . because a goodly portion of the Sinking Fund is the same paper. In other words I wouldn't consider it an asset really because you have got your own debenture sitting in the

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Sinking Fund so you have got it shown as debt on the one side and as an asset on the other side. And to the outside world they are really not outstanding debentures.

**MR. CHERNIACK:** All right but I am really talking about the inside world that should know better. And I want to recap what I believe is the situation, the correct situation, and that is that the government, let us say, borrows \$100 million on a certain issue and undertakes in that issue to buy back or to set up a reserve of, let us say, two percent per year, it can then, and it is sometimes required, I believe, to purchase, to put up the reserve in that particular issue itself.

**MR. ZIPRICK:** No, there is no specific . . . .

**MR. CHERNIACK:** It is not required to, but it may.

**MR. ZIPRICK:** It may. That's right. And generally does.

**MR. CHERNIACK:** And therefore the reserve that would be set up under the Current Account, moneys become available with which to set aside for repayments of that debt which has a future due date, that may be purchased in the same bonds or other bonds and would then be used to reduce the liability. Correct?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** That then means that the \$574.1 million of general debt shown on Page 7 as of March 31, 1976, would properly — and I use the word "properly" advisedly — be reduced by the amount of reserve that has been set aside and that is sitting in the treasury for the reduction of that debt as Sinking Fund, and in order to get a correct and true picture of the province's general debt as of that time, it would be unreal to quote this \$574.1 million as being net debts, and therefore unreal to claim that that is the moneys owing, without taking into account and always complementing that statement with the fact that there is a Reserve Fund. Is that a correct statement?

**MR. ZIPRICK:** Yes, the general practice is that Sinking Funds are usually taken off the debt and not shown as an asset. And we have talked about it in the province of doing the same thing. For instance Manitoba Hydro, they have a Sinking Fund provision. There we have the funded debt less the Sinking Fund gives you the net funded debt and that is really the bottom line net funded debt. Now you can take off various other assets that you have, but then you are not dealing with funded debt. But when you are dealing with funded debt, the general practice is you have got your gross funded debt, you take off the Sinking Fund and in many instances it is the same debentures that are on the other side, but you take off the Sinking Fund and you arrive at the net funded debt. And so that is the common practice, I would say. To show it as an asset is an exception.

**MR. CHERNIACK:** Mr. Chairman, then to carry this a little forward, I have here the prospectus issued for the Manitoba Hydro-Electric Board borrowing in the United States as of December 1, 1976. On Page 37 is a statement showing net direct public debt of the province and it shows a total direct public debt of, I guess it is, 1 billion 291 million, and some odd thousand and then there are substantial reductions totaling close to \$838 million in deductions, showing Sinking Funds, reserves for debt, cash held for debt retirement and other items of that kind. Are you familiar with this, Mr. Ziprick?

**MR. ZIPRICK:** Yes, yes, I am.

**MR. CHERNIACK:** And it shows a net direct public debt for \$453,554,000 as of March 31, 1976. That is preliminary unaudited as of March 31, 1976. Is that the way it ought to be shown to get a realistic view of the indebtedness of the province's payable over future years?

**MR. ZIPRICK:** Well, that arrives at taking all the working capital moneys and also adding your current liabilities and that arrives at the net position, taking all the factors into account. Now, when we are dealing with funded debt, you have got your total funded debt less Sinking Funds gives you your net funded debt. Then you have got various other cash. You have got various liabilities. You have got net position increase or decrease in your working capital. You add the two together and you will arrive at your . . . if you stopped business and paid off everything at that point, this is what you would be short. But it is not a normal presentation in financial statements to work to that kind of a position. It is being done for prospectuses but it is common practice in financial statements to arrive at the net funded debt. We have discussed it and I would prefer, as a matter of fact, next year if we don't move in that direction, we will be making some qualifications because I just cannot accept this hundred-and-some million dollars of assets shown in the sinking fund as being valid assets when it is pretty well all provincial paper. It is just inflating the assets and liabilities and I would prefer to see them shown as a reduction of those liabilities.

**MR. CHERNIACK:** So that that then would make it more clear to an onlooker what the net direct public debt is.

Well, then, one other question. Is there any change in presentation of, such as I was referring to in this prospectus, over the last 20 years by the province?

**MR. ZIPRICK:** I have only been associated in this area in the last six or seven years so I couldn't vouch that this same kind of procedure is being followed.

As a matter of fact, dealing with prospectuses, I might just add that it is only in the last number of years that they are getting much more concerned and much more demanding in the kind of information that is being shown. A number of years back I don't even know if prospectus were

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required from the province, but I know in the last six or seven years, and particularly since the difficulty in New York, they have been demanding more and more information of various kinds in the prospectuses. —(Interjection)— That's the Securities Exchange Commission, that's right. So that information and requirements vary from time to time.

**MR. CHERNIACK:** Well, Mr. Chairman, for the record then, let me indicate that I have looked back at prior statements by Mr. Roblin when he was the Provincial Treasurer, and I would state that the manner in which he presented net direct public debt statements is no different from the manner in which it is being presented by us at this time.

I just want again to mention something else for the record. I'm informed by the Deputy Minister that there is a difference of opinion between him and the Auditor as to how this should be presented and there will be a continuing disagreement unless the legislation is changed. Because the legislation apparently indicates to the department in any event that sinking funds which are invested in debentures of any kind shall be shown as an asset. The reasoning, which I've just been given, is that they are assets which bear interest which come into consolidated revenue and that they are saleable and may and sometimes are sold. So that they would continue to be assets on the financial statement of the province, but for purposes of understanding what is the net debt, there would be the separate statements shown as was shown in the prospectus. I don't know that as a politician, I am very much concerned who is right between the two as long as the facts are available and not misinterpreted, and I guess that's the important thing that the Auditor is concerned with, is the truth being openly available. Therefore, I assume that in the Auditor's Report he can show it his way as he has chosen to do on Page 7, which may be different from that of the prospectus or of the financial statement of the province. I guess it is important that when we deal with them we should recognize the differences and never fudge them.

**MR. CHAIRMAN:** Mr. McGill.

**MR. MCGILL:** Mr. Chairman, the report on Page 7 indicates that public debt increased by \$287.7 million during the year ended March 31, 1976. That's roughly a third increase in the public debt of the province in one year.

I wonder, Mr. Chairman, if the Auditor could give us some approximation at this stage of what the increase was for the year ended March 31st, 1977. I appreciate that all of the accounting is not complete, but I wonder if he could give us some indication of the increase in terms of millions in the public debt in the year just completed.

**MR. ZIPRICK:** No, I haven't got the figures with me. Maybe the Department of Finance.

**MR. MCGILL:** Mr. Chairman, then I wonder if I could ask the Minister of Finance, Mr. Miller, if he could give the Committee some approximation of the increase — a figure that would be comparable to this \$287 for the previous year.

**MR. MILLER:** The staff is trying to get it right now. I can't give an approximation. You're talking about the \$287 and how it relates to what it might be at the end of 1977.

**MR. ZIPRICK:** Well, the gross comparison between 1976 and 1977.

**MR. MILLER:** Yes, but we haven't got that.

**MR. MCGILL:** Well, Mr. Chairman, I thought there might be an opportunity here to get some figure that would be a rough approximation of the increase. I note that in the previous year ending March 31, 1975 the increase was \$154.7 million, 1976, \$287.7 million and in 1977 if the Minister can give us some general . . .

**MR. MILLER:** During my Estimates I'll try to have that figure. The books were just closed last Wednesday. I'll try at that time when my Estimates come up, perhaps I'll have more specific figures than we can get now.

**MR. CHAIRMAN:** Mr. Spivak.

**MR. SPIVAK:** Well, I just wanted to comment, I think the Minister's information will be very important and I think it will give us some basis on which to understand the debt and the breakdown of self-sustaining in general for this past year was about 50—50, and we don't have a breakdown of the previous year. The amount shown is only \$154.7, it wasn't shown in the same way as it is in this statement. Again I think we go to the whole question that the Auditor's statement this year, presents itself with more information or with maybe a breakdown of the same information in a different way because I don't want to start quarrelling with Mr. Cherniack; but I think from our point of view it becomes important in understanding it. So I think if the Minister gets that for us it would be fairly important.

**MR. MILLER:** Yes.

**MR. CHERNIACK:** One of the reasons we deal with these accounts late is because the books aren't closed or the statements prepared. If you look at Page 43 of Public Accounts there is a very extensive breakdown of the increases in public debt. What's interesting to me is that the figures are somewhat different where the Public Account shows a total public debt of \$1,237 and some odd million; the statement we're looking on Page 7 shows, \$1,133 million, which is about \$100 million less. —(Interjection)— Pardon? Well, that may be your technique, it's not theirs. There must be some

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other explanation.

**MR. ZIPRICK:** It's somebody else's, but ours is treasury bills.

**MR. CHERNIACK:** The difference is the treasury bills, I'm informed. Oh, yes, \$160 million, well even that doesn't quite balance. There is no doubt an explanation, but in any event it is there, it is broken down, the increases are shown even down to a \$52,000 amount of increase. I suppose all that could be done is at Estimates time to try and give what information would be available at that time and probably would not be audited or confirmed or necessarily complete.

**MR. ZIPRICK:** It wouldn't be audited.

**MR. CHERNIACK:** It might not even be completed at that stage.

**MR. CHAIRMAN:** Page 7—pass. Page 8. Mr. Lyon.

**MR. LYON:** Mr. Chairman, Trust and Special Division includes \$2 million of deferred liquor L.C.C. revenues, taken into the revenues of the province for the year ending March 31, 1977. Could Mr. Ziprick explain how that arises?

**MR. ZIPRICK:** Yes. I think it was about three years ago there was \$2 million of Liquor Commission revenue was set aside in trust and not taken into revenue for that year. It was left in the Trust section and will be transferred into revenue in 1977.

**MR. LYON:** Mr. Chairman, what was the purpose of the . . .

**MR. ZIPRICK:** Oh, I couldn't comment on the purpose.

**MR. LYON:** Just as a contingency fund for inventory purchases.

**MR. CHERNIACK:** I think that was probably done with my — actually I think the Minister of Finance has the authority to set aside a reserve of that kind and I believe that that was the indication. There was a fluctuation at that time in value that made it uncertain what the forthcoming year would bring on the inventory taking and therefore on advice as I recall I approved of that setting aside.

**MR. LYON:** So it had to do with operations, not with any prospective capital.

**MR. CHERNIACK:** No, no, not capital. Operations of the Liquor Commission.

**MR. CHAIRMAN:** Page 8—pass. Page 9—pass. Mr. Lyon.

**MR. LYON:** There's an explanation in the middle of the page, Mr. Chairman, about the MHRC indebtedness to the CMHC amounting at that time to \$123.3 million. Can Mr. Ziprick explain how that indebtedness is shown with respect to the gross public debt of the province?

**MR. ZIPRICK:** It doesn't come into the gross public debt of the province. It's reflected on the Manitoba Housing and Renewal Corporation's statements as the amount owing to the CMHC. Then the payments are made from the various housing authorities that run these organizations, both principle and interest, and any deficit that arises is then picked up 50 percent by the province and 50 percent by Canada.

So, in effect, it's not a guaranteed debt. CMHC provides it and now they register mortgages of course on the various housing units that have been constructed, so the province doesn't guarantee it and it's not recorded as a debt of the province, and is recorded as a debt of CMHC, and as the repayments are being made, interest and principal, it's being reduced and the province's input is through the subsidy.

**MR. LYON:** And the figure, Mr. Chairman, that's shown on the bottom of that paragraph, subsidies by the MHRC chargeable to the province amounted to \$5.6 million for the year ended March 31, 1976. That, in effect, represents there the shortfall or or the split I should say between CMHC and MHRC which in turn represents the shortfall between the receipts and the carrying charges on that debt.

**MR. ZIPRICK:** That's right. Yes, and plus any operating deficiency in addition to that.

**MR. LYON:** But the debt remains.

**MR. ZIPRICK:** What's that?

**MR. LYON:** How much of the capital is being retired or is that . . .

**MR. ZIPRICK:** Oh, there's a retirement schedule that's required. There's an amortization schedule set up that so much debt is retired each year, of payments of principal and interest, and that is part of the built-in charge to this housing authority in addition to their various operating expenses, then you take off the revenue, that's the shortfall and that then is picked up 50 percent by the province and 50 percent by the . . .

**MR. LYON:** And the justification of not showing that as part of the debt of the province presumably is that there is a counter-balancing asset in the housing unit. But does that not apply in other debts incurred by the province where there are counter-balancing assets?

**MR. ZIPRICK:** Well, this is an arrangement that's with the Federal Government CMHC; and let's say that any one of these units became obsolete and was not operative any more, there would still be a shortfall I guess in accordance with the terms of the agreement. The repayment would continue on schedule until it's repaid. The principal and interest, but there would be no immediate charge. So about half of it — no I couldn't say that because I don't know to what extent the usage revenue takes care of the principal interest — but to the extent that there's a shortfall in the revenue from use charges, then the remainder has to be picked up by the province.

**MR. LYON:** But it still represents an outstanding obligation that has to be met by the taxpayers of Manitoba, at least partially.

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**MR. ZIPRICK:** Partially. Half will be met by Canada, half is met by Manitoba, and then some of it is met by the users. So it's a complex situation. Now the rent is set on the basis of incomes, so the rent is not established on the basis of a budgeted expenditure but on the basis of incomes. So you have your various expenditures that total up so much, and then the rent which is established on the basis of income yields so much, the difference is what has to be subsidized.

**MR. LYON:** Mr. Chairman, the title to the housing units stands in the name of MHRC . . .

**MR. ZIPRICK:** In the regular corporation.

**MR. LYON:** . . . as distinct from the Crown itself.

**MR. ZIPRICK:** Well, it's MHRC in the right of the Province of Manitoba.

**MR. CHERNIACK:** Well, that's the point, Mr. Chairman. This is not a debt of the taxpayers. It is not a liability of the province. The liabilities of the province are shown on Page 46 of Public Accounts in securities guaranteed by the province. MHRC is not on this list, therefore it would be wrong to show it as a liability of the taxpayers because indeed they are not legally liable for payment.

Now MHRC owes the money to — if you want to put it that way — the Crown owes money to the Crown. The MHRC as the Crown Agency owes money to the CMHC, a Crown Agency. I don't know whether it would be of value for the Federal Government to set up contingent liabilities in the expectation of debts not being paid. The fact is that these are both Crown corporations operating for the benefit of the people who are being subsidized in their housing, but legally it's just not a debt which should be shown as a debt of the province.

**MR. LYON:** Mr. Chairman, but there is an outstanding obligation . . .

**MR. CHERNIACK:** By MHRC.

**MR. LYON:** . . . in the shortfall in the maintenance of that obligation of 50 percent roughly that is being split in turn by the Federal and the Provincial Governments. In other words, it's only self-sustaining in the true sense of that term by virtue of rental payments and so on. So that the subsidy of the province moves in, presumably the debt remains on the books of the Federal Government. Somewhere it has to reside as a debt.

**MR. CHERNIACK:** Oh, yes.

**MR. LYON:** Yes, CMHC.

**MR. CHAIRMAN:** Mr. Johannson.

**MR. JOHANNSON:** A question to Mr. Ziprick. The CMHC holds mortgages of course on the collateral, which is the housing that has been built. Now much of that housing was built some years ago and you made some reference to the possibility that this might become obsolete. In fact isn't it true that that housing is worth a great deal more now in terms of equity than at the time that it was built. In other words that the amount of debt against it . . .

**MR. ZIPRICK:** No, I don't think that they'll become obsolete. I was just using a hypothetical possibility if it did become obsolete for some reason or other . . .

**MR. CHAIRMAN:** Mr. Johannson, would you use the mike please, they're having difficulty picking you up.

**MR. JOHANNSON:** Yes. A house for example that was built in 1971 for \$15,000, in the private market today sells for more than twice that. Now the same thing would prevail with the housing roughly that was built by MHRC, would it not?

**MR. ZIPRICK:** Oh, I would agree that if there is a valuation placed at this time that the established market value at this point would be higher than the liabilities.

**MR. JOHANNSON:** I would think that even double would be a conservative figure for the housing that was built around 1971.

**MR. CHAIRMAN:** Page 9—pass. Page 10. Mr. McGill' then Mr. Graham.

**MR. MCGILL:** Mr. Chairman, I wonder if the Auditor would explain his qualifying statement under Revenue and Expenditure, "Except for the inclusion of \$45 million deferred revenue and the transfer of \$4.2 million revenue surplus, revenue for the fiscal year ended March 31, 1976 is stated on a cash basis, consistent with the practice of the preceding year." I think this is rather an important qualification and I wonder if Mr. Ziprick could explain the detail of this amount of \$45 million.

**MR. ZIPRICK:** Well, that gets into the whole area of presenting revenue and expenditure. Now the Financial Administration Act makes a provision that the Minister of Finance can declare revenue of one year to be revenue of another year and carried forward into the next year. Now, we point this out that this year's revenue includes something that has been brought forward and hasn't been collected yet, within the present terms of the Financial Administration Act, that's quite permissible and in accordance with the Act. We don't agree with that and we suggest that the Financial Administration Act be changed so that the revenue of the year are just shown and the total expenditure of the year and you would have a position of net shortfall. But the way the Financial Administration Act is set up now, there is this provision whereby the Minister of Finance can allocate this year's revenue to the next year and declare it next year's revenue, and vice versa. right.

**A MEMBER:** A roll-over.

**MR. MCGILL:** Mr. Chairman, then is this \$45 million not the revenue that was brought forward in 1975 as previous year's income and treated as revenue in 1975? Is that correct?

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**MR. ZIPRICK:** That's correct. It was not treated as revenue previous year although it was received in previous year. It was taken out of previous year and declared that it was going to be next year's revenue, and it's showing up this year.

**MR. MCGILL:** That's right. So the same procedure, then, was used in 1976, after it was brought forth in 1975?

**MR. ZIPRICK:** That's right.

**MR. MCGILL:** And the effect for 1976 was nil in that it was used in both revenue and expenditure. But there is no amount transferred at the end of 1976 to 1977. Is that correct?

**MR. ZIPRICK:** Well, that's right; that's right.

**MR. MCGILL:** That, then, would indicate that standing on its own, the revenue deficit for 1976 would be the reported \$11 million plus \$45 million which would make \$56 million as the revenue deficit. Is that correct?

**MR. ZIPRICK:** Yes, if you were working on the actual revenue received in that year as against the expenditures of that year, that's correct.

**MR. MCGILL:** So the point I want to make clear to the Committee is that we don't have a deficit of \$11 million but we do have, in fact, a real deficit of \$56 million. And furthermore there is no cushion to start 1977. In other words, the cupboard is now bare and this manoeuvre will not be able to be repeated. Is that correct, Mr. Ziprick?

**MR. ZIPRICK:** Well, I guess it could be repeated if you wanted to put a larger deficit there. The Financial Administration Act doesn't say that you can't carry forward revenue if there is a deficit but you know, I wouldn't see the point of carrying forward if there was a deficit. So, until there is surplus revenue, I would say that it wouldn't be repeated.

**MR. CHAIRMAN:** Mr. Graham.

**MR. GRAHAM:** My question has been asked.

**MR. CHAIRMAN:** All right. Mr. Cherniack.

**MR. CHERNIACK:** Well I just want to point out, Mr. Chairman, Mr. McGill woke up about two years later than the information was available to him. The estimates of revenue for the year ending March 31, 1976, do show a transfer for revenue surplus of \$45 million, right in the statement.

**A MEMBER:** In the Estimates Book.

**MR. CHERNIACK:** In the Estimates Book. I don't know if it was discussed two years ago, but I certainly was there two years ago and the expected deficit for that year was \$13 million and, of course, included the carry forward of \$45 million. I would be very surprised if there wasn't reference made to it two years ago. So, to the extent that Mr. McGill has reminded us of history, I suppose it's of interest.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** At the top of Page 10, Mr. Chairman, Mr. Ziprick has a couple of explanatory paragraphs about unexpended legislative authority. They're about Section 45 of the Financial Administration Act not permitting contracting indebtedness for any purposes and amounts not authorized by the Legislature, and there appear to be practices now developing in contravention of that section and I wonder if Mr. Ziprick could explain what they are.

**MR. ZIPRICK:** Yes, the Section 45 of the Financial Administration Act does not permit an Minister to commit the province except for funds voted by the Legislature.

Last year, an arrangement was made whereby commitments were signed with contractors in the Department of Highways and there is a provision in the contract that this contract is only effective if the funds are voted by the Legislature. With that kind of provision, we were told by Legal Counsel that it does not contravene Section 45 of the Financial Administration Act. As a result, last year the total amount required for commitments was not voted to the extent that this other procedure was used. It was not voted in Capital Supply.

**MR. LYON:** So, would it be a fair analysis, Mr. Ziprick, to say, first of all, that by following this particular procedure the government is actually expending moneys that the Legislature has not voted, Number One . . . ?

**MR. ZIPRICK:** It's not spending money; it's committing . . . No, there's never any money actually paid out but it has been voted by the Legislature.

**MR. LYON:** Number Two, in your own opinion, Mr. Ziprick, if this is to become regular practice rather than the exception, would you prefer to see an amendment to the Financial Administration Act to cover the practice rather than to be going around through the back door as we appear to be doing now on the basis of a legal opinion?

**MR. ZIPRICK:** I think it would be desirable to have it amended. This placing of this condition in the contract didn't seem to excite any of the contractors and I can see why. When the service is provided I think they're pretty sure that they'll get paid, so they are not particularly worried about that section think that if this procedure was to follow, it would be best to amend the Financial Administration Act rather than be amending contracts in this way.

**MR. LYON:** Well, Mr. Ziprick, while it didn't excite the contractors, it certainly was manifested enough to cause you to make mention of it in the Report, for which you are certainly to thank.

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commended. I think it perhaps should excite the members of the Legislature to know that this new practice is being followed internally without necessarily their knowledge and/or their agreement.

**MR. ZIPRICK:** Well, you know, I don't know whether I can comment as to whether to their knowledge. I'm not sure as to what various things were discussed in the, for instance, Capital Supply Review and the presentations. But this is a practice that Hydro . . . there's some of it was followed in the preceding year, and some of it has been continued for large contracts and last year, for the first time, it was introduced on Highways. I just pointed it out that that was the situation. Now, whether the members were informed or not, I couldn't comment on that. I really don't know.

**MR. CHAIRMAN:** Mr. Graham.

**MR. GRAHAM:** Mr. Chairman, dealing with the same subject, if this procedure is followed, would not the tendering process then in fact bring in higher than normal tender prices because of that some degree of uncertainty?

**MR. ZIPRICK:** I doubt it; I doubt it. I doubt very much whether there would be any . . . It's a competitive bid system and I doubt whether they would concern themselves because of that clause being in there as to the possibility of payment.

Now, with regard to this commitment control, when these changes were coming in and otherwise, I was concerned and so I took a look at what some of the other areas are doing with regard to commitment control and I was quite surprised to find, for instance, that Ontario has no commitment control at all through the legislative system; neither does Canada. So, with the different kind of approaches, I did not take it upon myself to be unduly critical of our system because of the different practices that seem to be followed.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** Mr. Ziprick, your counterpart in Canada has said that the spending of the Federal Government is virtually out of control. You're certainly not recommending that we fall into the situation where you would have to make that statement about any government in Manitoba.

**MR. ZIPRICK:** No, I think that . . . And I've talked with the Auditor General of Canada and he prefers to have parliamentary commitment control and he doesn't — and I agree with him there — the need for rigidity in this kind of control shouldn't be that you have to get involved in passing laws when your Estimates are out or your programs accelerate. But I think there should be statements that disclose the situation fairly clearly as to what's going on. And, by that means, there is information as to what's going on; what are anticipated commitments and the idea is it would be much better to work on the total programs that are anticipated — the total cost of those programs that are anticipated — and then indicate progressively to what extent the programs have been committed and to what extent they have been expended. Through that kind of means, you can provide all the necessary information and you don't get into the rigidity of legislated specific approval, because the kind of business that we're in now and the volumes that we're doing, and the estimating, and that, I think that it makes it difficult to operate within that kind of a rigid system.

**MR. LYON:** Mr. Ziprick, we dealt for a moment or asked your opinion on the advisability of amending the Financial Administration Act to reflect the practice. Of course, there is the other alternative which I judge was the practice followed heretofore by this government, and the previous governments, which was really not to understate the requirements but to state the requirements in light of the program, as they anticipated it, so that this alleged infringement of Section 45 of the Financial Administration Act would not come about. Or, to put it another way, if the Financial Administration Act were to be left as it stands, would that not enforce the discipline upon government not to understate its requirements but rather to state them realistically so that it would not be necessary to be inserting sections in contracts "subject to funds being voted by the Legislature" because I would, at first blush, take the view that this does represent an infringement upon the fundamental purpose and being of the Legislature which is to vote Supply for Her Majesty for the purpose of carrying on the affairs of government for the succeeding year. That's the fundamental purpose of parliament. What you're saying to me in this is that there is some variation from that fundamental purpose, that parliament is really not being asked to vote the full amount of funds and that in order to get around the business of more money being expended than is actually being voted, contractors are being asked to put this caveat in their contracts without parliament necessarily being aware of it, or the Legislature.

**MR. ZIPRICK:** Yes, it's a problem that I think did present difficulties in understanding all the time. The capital voting, in the simple terms of X millions of dollars, I've continuously noted the confusion that people think it's going to be all spent in this year. And so I think that myself I'd feel that if there was a requirement or a policy whereby you would indicate the total program — indicate how much you expect to expend in that year and then how much you're going to commit in that year — then the whole picture would be disclosed as to what your expenditures will be, what your commitments will be, and what portion of the program will still be in the stages of development. Like the Hydro contracts, some of those contracts extend over a five-year period. They are very large contracts and

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you have to bill all that into your Estimates beforehand — to be reasonably sure, you would have to have a very large figure. Now, with no additional explanation, it's hard to really follow. I think a much better system would be to indicate the whole program; the amount that you are spending this year, the amount that you expect to commit that year, and what's to be left to the future.

**MR. LYON:** If I hear you correctly then, Mr. Ziprick, what you would really prefer of the two alternatives about which we have spoken, is that the Financial Administration Act should be left as it is and that governments should be required to state what their financial requirements are more accurately. Rather than to understate capital requirements they should, if necessary, overstate their capital requirements and follow the practice, as I recall it being followed many many years ago and probably up until very recently, as you indicated here, that capital amounts would be voted, certain amounts would be drawn down year by year but the authority was always there for the capital that was being expended.

**MR. ZIPRICK:** That's right; that's right.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Chairman, Mr. Lyon has now completed the whole circle. He started by suggesting that the Financial Administration Act could be changed, or might be well changed, and then he came to the conclusion that it shouldn't be. I agree with his last conclusion because the first suggestion would have given a blank cheque to government, in effect, depending — you could put in some qualifications or restraints — but to permit government to contract beyond the authority is, in effect, a blank cheque.

I want to disagree with a couple of terms that were used. The word "alleged infringement" or indeed, "infringement" is only in the mind of the person who uttered it. Nobody suggests, other than Mr. Lyon, that there was an infringement of the Act, and if there's an allegation, it is his. But nor was there a commitment, because Mr. Ziprick makes the point that there was not a commitment made that indeed the precaution was taken not to make a commitment when there is no authority. I think that is better than way. The reason this came about, in the Highways . . . Well, let's go back and say that . . . of course Mr. Ziprick mentioned that Canada and Ontario followed the practice, which is no necessarily justification, but it is an indication of what is an acceptable practice in the indication of what is an acceptable practice in the world outside, which we have to recognize. When there is a good season and there is an opportunity to take advantage of favourable weather or to obtain favourable prices which are predictable, it is a good idea to be able to make some kind of an agreement with a contractor who knows that there yet has to be authority granted and that the contract is subject to the authority being granted and the contractor is therefore the one who is, with his eyes wide open taking the risk.

Mr. Graham makes the point that maybe that would raise the price and I agree with Mr. Ziprick. I doubt that it would because when the government contracts, it is for a large enough amount to show that with stability in government, that it is worthwhile. — (Interjection) —

Well, you see Mr. Lyon has made it his job to throw doubt — he has to do it apparently to maintain himself — to keep throwing doubt as to whether the government is responsible. I believe that the government is responsible until the electorate decides that another government would be more responsible, but Mr. Lyon keeps trying in his cute way daily to try to sow doubts in the minds of the people as to whether or not this government is performing in a responsible way. And when Mr. Ziprick in his report indicates responsibility, Mr. Lyon somehow tries to interpret it otherwise.

The point I want to make is that . . . .

**MR. LYON:** If I may interrupt . . . .

**MR. CHERNIACK:** I don't mind at all.

**MR. LYON:** . . . with Mr. Cherniack's permission. He is indicating an aberration from what was the established practice and an aberration which infringes upon the Legislature's control of voting Supply or voting capital for public purposes. If it were not an aberration, it would not be indicated.

**MR. CHERNIACK:** Mr. Chairman, it is not at all an aberration and Mr. Lyon is again using a term which is his term and not that of the Provincial Auditor so he shouldn't by implication put words in the mouth of the Auditor. The Auditor did not say there was an infringement. He points out that there is an extension of the arrangements that are made, which as he says, provision is made in contracts so that they are subject to funds being voted by the Legislature. How that is an aberration can only be in the mind which sees or has aberrations, I suppose.

**MR. LYON:** It is here.

**MR. CHERNIACK:** It is here but it is not an aberration. It is a clear-cut statement that contractors know when they enter into a contract that there is still an item in the contract which has yet to be fulfilled before the contract is firm. So there is no commitment.

Now the other point he makes is that government should be expected to declare its future program. And as Mr. Ziprick said, if Hydro enters into a five-year program for a billion dollars, there is no doubt that once you enter into flooding an area like South Indian Lake, there are all sorts of consequential expenditures which will be necessary to justify the program and that could be a ten-year program and Mr. Lyon suggests that there should be a long-term authority granted. This would

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be of interest if it were dealt with by people who were prepared to look at it from that standpoint and not start screaming, "Oh, look, they are looking for an authority of one billion dollars whereas last year they only asked for two hundred million," something like that. It has to be handled in a responsible way by all parties.

I am not quarreling with his approach. I think we ought to be discussing it over some period of time and arriving at what may well be an agreement of all parties to a procedure. For example, when the government of 1966 or 1967 or whatever committed a loan to a firm whose name was Minago I think, or something like that, to lend money at 6 ¼ percent, some — I don't remember how much — fifty, sixty million dollars, that since that money was not authorized anywhere there should have been an authority to MDC which would make MDC know that they had the right to draw and to lend to the Kasser-Reiser outfit all this money at 6 ¼ percent, and I am pretty sure I am right about the interest rate, at a time when actually the government had not even received the authority to make that guarantee nor to borrow that money, and as later showed, the interest rates payable for that very money were much more than the amount committed. So that using that as a pretty good example of what can happen, it may well be that we ought to be discussing further methods by which commitments of the kind made at that time could not have been made without public scrutiny. And therefore I have to support Mr. Lyon in his suggestion that we ought to be looking for ways and means of achieving real disclosure, rather than hiding the facts in a legal way, which was apparently done at that time.

**MR. LYON:** Mr. Chairman, my colleague, the Member for St. Johns, has used an example that is not perhaps germane, but one on which I don't mind commenting because he seems to be perpetually blind to the fact that under the legislation which empowered the then MDF, I think it was, to make the loan in question. There was also a section that permitted that same group and/or the government to withhold payment at any time that they thought there was fraud, a section that apparently eluded my honourable friends when they proceeded to pay out the cheques.

**MR. CHERNIACK:** They actually made a commitment to lend all this money without any authority.

**MR. LYON:** Well, it is a section that apparently eluded by honourable friends, so there is . . .

**MR. CHERNIACK:** But is it not true that they made a commitment without authority?

**MR. CHAIRMAN:** Gentlemen, would you direct your questions through the Chair, please.

**MR. CHERNIACK:** Of course, Mr. Chairman, is it not true that the MDF made a commitment without authority and Mr. Lyon's only answer seems to be, "If you can find proof of fraud, then you don't have to pay it," but surely he entered into the contract not expecting to find proof so as not to pay it. He must have wanted to honour his word and expected his successors to honour his signature is much as he wanted to honour his own.

**MR. LYON:** That's perhaps non-productive, historical review. My honourable friend, Mr. . . . — (Interjection) — It is not at all embarrassing, because we didn't sign the cheque. My honourable friend seems to be totally blind to the fact of course that his particular group, and I think he himself, but certainly the First Minister came into office alleging fraud, alleging a bad deal, alleging that it was the worst deal that had ever been made in the history of Manitoba and then proceeded to pay out all of the money under that particular deal.

If my honourable friends wants to, if he wants to debate non-productively that, I will debate him any time, any place on it because the facts are clear for anyone to see.

**MR. CHERNIACK:** Mr. Chairman, I want to say the worst mistake we made was to honour the signatures of Sterling Lyon, Walter Weir, George Johnson and many others, Gurney Evans, people who signed their names to . . .

**MR. CHAIRMAN:** We are getting into a debate gentlemen. We are straying away from the Auditor's Report. I have another speaker on the . . . Mr. Lyon.

**MR. LYON:** I don't want to carry on a non-productive argument. My honourable friend has made mention of agreements. I merely make mention of the fact that governments of that day, as with governments of this day, make agreements with respect to stumpage rights and so on, and those agreements are signed. But governments of that day, as with governments of this day, do not make the financial agreements as between the MDF and the people to whom they loan. I daresay my honourable friend wouldn't like to suggest that his signature appears on the agreement to loan \$40 million to Saunders Aircraft. I am sure it doesn't appear there and I am not alleging that it does.

**MR. CHERNIACK:** Well, I am sure that I have to share responsibility of the government for having authorized that to happen in the public eye, public view. I am wondering whether Mr. Lyon is prepared now to deny the authority and his participation in the loan agreement which was made concurrently with that agreement that he did sign about stumpage.

**MR. CHAIRMAN:** Gentlemen, I am afraid we're getting off the subject completely. If Mr. Shannon, who is on my list, is speaking to the Auditor's Report, and not to the CFI or Saunders Aircraft financial arrangements, I'll acknowledge him.

Page 10 — pass. Mr. Lyon.

**MR. LYON:** I'd like just to wind up on the point that I think we started out on. At the top of Page 10,

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Mr. Chairman, I take it that it is the recommendation, or at least it would be the preference of Mr. Ziprick that the second course about which we have some discussion be followed; namely, that governments, rather than understating or unanticipating their capital requirements governments — and I use the term collectively in the proper sense — should be required as a discipline to meet the requirements of Section 45 of The Financial Administration Act as it presently stands and not either through errors of omission or lack of foresight, to get themselves into a position where they are committing moneys for which there is no legislative authority.

**MR. CHAIRMAN:** Mr. Ziprick, did you want to respond or is it . . . .

**MR. ZIPRICK:** I would just repeat what I said before. This was absolutely legal because we have ascertained it, but from the point of appropriate handling so that the people really understand and the Legislature really understands what goes on, should be that the whole program — after all any one of these programs of building, you just can't build a half a building and stop. You have got to build a whole building. And if you know that it is going to cost you approximately \$10 million, you should talk in terms of \$10 million that you are going to spend \$1 million this year, that you are going to commit about \$4 million the year after and the other is going to come in due course. I think in that sort of way, you will get full disclosure; whereas in the old system, the objection I had to it was the continuous misunderstanding that when there is \$100 million or \$200 million voted in Hydro, for instance, for their commitments, it was felt that it was something that is going to happen in that year by many people. I think to get away from it, you should get into this kind of setup.

As a matter of fact, Canada has moved in that area and right in their Estimates now they show the total program and in their budgeted expenditure for the year they show the amount that they are going to spend and then they show the amount that they expect to commit right in the Estimates for that year. As part of the Estimate explanation they say, "This is the expenditure and these commitments are estimates that if the program proceeds faster, they reserve the right to move faster or if it is slower, it will be less. But the whole program is disclosed. They have done it in a number of departments, and the Defense Department particularly I took a look at, and it's a very good disclosure because it shows the full amount of that particular undertaking — building or whatever have you — and it shows what you are going to be expending this year as a part of the budgeted estimates, then what you are going to be committing for future years.

**MR. LYON:** Can I — without trying to put words in the mouth of the Minister of Finance or the Member for St. Johns — there seems to be rare unanimity around the table that the practice that Mr. Ziprick is recommending should be followed in the future.

**MR. CHERNIACK:** Mr. Chairman, I was going to say that I was in agreement with Mr. Lyon from the beginning. It's just that I somehow used the wrong analogy. I don't know how that happened. I just got an example that I thought I could develop in his support. I wanted to support him. But it is true, and I had in mind to ask Mr. Ziprick whether he couldn't have a look at his leisure at what the history has been and what would be the best way of doing it. Do I understand that the way you described Canada's system, that they actually get the authority that might be for the next five years and then indicate in an uncommitted way, how much they think will be spent in each of those years. But the authority is for the whole project, is it?

**MR. ZIPRICK:** Yes. As I mentioned before, Canada legislatively has no commitment control now but they were concerned and the Auditor-General was concerned — just exactly what we are talking about. It's almost . . . .

**MR. CHERNIACK:** I want to interrupt, Mr. Ziprick, because I think that we have come to the idea that it would be useful to have a review made, and possibly we could ask Mr. Ziprick, along with the Department of Finance, to consider what we have discussed in this respect and see if there is an better way. Frankly, I don't think this is a bad way but it may well be that even legislation to provide that 10 percent overage would be permissible by way of commitment or something like that something we should all be able to agree to, but not in a rush and let Mr. Ziprick and the department consider what could be done.

**MR. CHAIRMAN:** Mr. Miller.

**MR. MILLER:** Mr. Chairman, the department as a matter of fact, has been considering this presenting a format whereby the statement of the projects, listing sort of the commitments for the next year. In other words showing the total cost. In the case of Hydro, it would be as you indicated, billion dollars and there's no way they can spend that billion dollars in a year. But trying to indicate what might be expected to be spent within that year and showing the long term cost implication: That's what you have in mind.

**MR. ZIPRICK:** That's right and I . . . .

**MR. MILLER:** The department has been working on some sort of format and I am sure they'll be in touch with you on that.

**MR. ZIPRICK:** No, I think that that's very useful and as I say Canada went into this system not a part of legislative requirement but as part of a good system of handling. And I think it discloses the situation quite well. Now we could either do that or some form of it that could meet the requirement

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and really present a good picture of what's going on.

**MR. LYON:** And hopefully, whoever is the Minister having responsibility for this next year, Mr. Ziprick is at least assured that he'll have a consensus of opinion as between the two parties who appear to be major contenders for that doubtful honour.

**MR. CHAIRMAN:** Page 10—pass. Page 11. Mr. Graham.

**MR. GRAHAM:** Mr. Chairman, dealing with the individual income tax and the increase here the Auditor has said that it mainly arises from the interaction of expansionary economic conditions. Could you explain what that means?

**MR. ZIPRICK:** When we take a look and see the comparison of the revenue actually received as against the Estimates, we try to determine the reasons for it to make sure that there was no attempt at overstating or that there has been accountability for the revenue and the inflationary conditions, particularly, have made predicting so uncertain that this is what we really mean, that the main cause is that the inflationary conditions and the revenue expansion as a result of it has made predicting so uncertain that that's why it mainly arose.

**MR. GRAHAM:** Well, in other words, what you are saying is that the increase in income tax mainly arises from inflation?

**MR. ZIPRICK:** Well, basically I guess that there are other factors but inflation was the main difficulty in predicting just what the revenue is likely to be and the prediction is being made by Canada — Manitoba just accepts because Manitoba has no way of predicting — so Canada does the predicting, sends it across here and Manitoba accepts Canada's prediction. Now, we've been taking a look at Canada's prediction and whether it could be done better I don't know. There are so many uncertainties that we wouldn't want to comment or be critical of the prediction.

**MR. GRAHAM:** Well, then we will go further down and you come to the Retail Sales Tax and the reason you give there for the increase is mainly attributable to growth. There is no inflation factor involved there is there?

**MR. ZIPRICK:** Well, yes, the growth in sales, now that's what we really meant, it is the increase in sales. Now, some of it would be inflation but the bigger portion would be the purchasing power being here and there's more goods being bought.

**MR. GRAHAM:** You are referring to the number of sales or the dollar value?

**MR. ZIPRICK:** The dollar value of sales. Now, there will be some element of inflation because the prices are up so your sales are going to be higher. I guess another modifier could have been inserted in there, I wouldn't argue about that.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** On the individual income tax at the top of Page 11, Mr. Chairman, Mr. Ziprick makes the comment — "the increase in individual income tax revenue is 53.3 million from 203.9 million to 57.2 million." Now, as forecasted, as I recall in last year's Budget Statement, we this year have the new method of stating individual income tax revenues which is X the municipal portion, X the tax rebate and X the cost of living rebate. I am asking how Mr. Ziprick in Public Accounts for the fiscal year that we are in, is he going to continue to treat, for instance, using the individual income tax revenues as an example, is he going to continue to treat them in the gross way as he does in his comment at the top of Page 11 or is he going to treat them according to the new method which is not noted on Page 2 I guess it is, of the Estimates of Revenue that were passed around by the Minister on Friday?

**MR. ZIPRICK:** Well, you know, we are not there yet but I can say that we are commenting on comparability. We certainly can't comment on comparability unless we make it comparable so I would say that for the one year, we will make it comparable in the explanation here, so that the picture could be seen on a comparative basis. Then the next year, of course, it will be comparable under the other system. So there will have to be a transition period and this year it will have to be restated for comparative purposes if there is going to be a comparison.

**MR. LYON:** Just on that point. Is this method of statement which is not unique to Manitoba, I believe Ontario and I don't know what other provinces but I am sure some other provinces follow it, to those that have Cost of Living and/or Tax Rebate systems, is this form of treatment of the revenue picture a recommendation of the Provincial Auditor or is this a recommendation of the Finance Department?

**MR. ZIPRICK:** No, I have made no recommendations that I recollect on it. As far as I am concerned, either way as long as it is disclosed, I guess, the question arises in a municipality if . . . they have the taxing authority, it's really their revenue and it's not the provincial revenue. If they don't have the taxing authority, well then it's a grant. Now, you know, in general terms this could be used as a guide and if they are doing the taxing and the province is an intermediary, well then it's their revenue and not the provincial expenditure. On the other hand, if they don't have the taxing authority . . .

**MR. LYON:** You're talking about the municipalities.

**MR. ZIPRICK:** Municipality, but they get a grant, then it's a form of an expenditure just like any other grant. I'd be guided substantially by that.

**MR. LYON:** Yes. I'm of the impression, Mr. Chairman, that we're into a field really of semantics.

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that while other jurisdictions use this system, I would be interested quite frankly in Mr. Ziprick's opinion of it because I hold the view that what the revenue estimates of the province should show is the amount of taxes that are paid by the taxpayers of Manitoba. The fact that there is a redistributive element that comes in to that taxpaying is secondary as has been mentioned in another form, welfare payments are a redistributive function of government but you don't show personal income tax or other revenue forms that accrue to the government, X welfare payments. What is the validity for showing them X tax rebate, X cost of living, X municipal payments because the method of supplementing the incomes of municipalities which was transformed — I think it was a year ago — from the old *per capita* grant system to the dedicated two point system is really just a change in form. It gives the municipalities access in a fixed way to a growth tax. What you call it is relatively immaterial but to show it, again, as a deduction from taxes paid by individual taxpayers in Manitoba, suggests to me that that does really not reflect the true position, either internally to the Legislature or to the people of Manitoba or indeed externally — and I put myself in the position of a lender in the international market who wants to know what the taxpayers in Manitoba are actually paying pursuant to, for instance, this year our 42.5 imposed tax rate. Are those pretty hard-nosed lenders still not going to want to know that precise information minus the footnotes and the frills that we have as shown on the Estimates of Revenue distributed to us last Friday?

**MR. ZIPRICK:** I would just say this at this time, that we audit this on a post-audit basis. I do not participate in the preparation of the Estimates. I've noted it; I've thought about it but whatever I said here was in a generalized way. Just / exactly what we'll say about it in my report come next year, I really couldn't say conclusively at this point because it's got a lot of implications. I want to take a look at all the various implications and what's being done other places and our observations and conclusions will be on that basis. So, I wouldn't want to say we're concluding that we will not have observations, that this is not maybe the best way of doing it. I wouldn't want to at this point, it's something that I just fairly recently became aware of and I wouldn't like to commit myself to one thing or another at this point.

**MR. LYON:** Well, thank you. I don't, Mr. Chairman, want to put Mr. Ziprick or his staff on the spot on the thing but I don't regard it necessarily as a partisan thing, I just regard it as a method of how the taxes, the taxes that are being paid by the taxpayers of Manitoba in my lay estimation are not demonstrated as clearly or as factually by this method of presentation as they would be under the present method of presentation. I leave the questioning to Mr. Ziprick at that point.

**MR. CHAIRMAN:** Mr. Miller. Mr. Cherniak.

**MR. CHERNIAK:** Well, Mr. Chairman, I am interested in this matter. I think the important thing is to make sure that the facts are there. If Manitoba could have persuaded the Federal Government to make changes in the exemptions rather than putting credits on the side, then the net revenue might have been the same but the method of collection or repayment might have been different. The fact is that exemptions under the Federal Act which include the exemptions for marital status and childrer or, indeed, deductions for reserves, incentive grants of various kinds to industry, they are all, in a way a reduction of taxation but not that they pay less but that they get certain benefits and therefore it becomes a very complicated experiment to try and show the total tax, less exemptions, less rebates less credits, less all kinds of things. The important thing is that — well, of course it's impossible — so the important thing is that the information be available as apparently it is.

I haven't really looked at that sheet that Mr. Lyon is looking at but he says it's all there and as long as it's all there, then that's important. It reminds me — and I hate to remind Mr. Lyon — of a time around 1967 or 1968 when I had a great deal of trouble figuring out why there was a tremendous reduction in Revenue Estimates and I realized that the government had changed showing the premiums paid on hospital care from being revenue to letting it go to the Health Service Commission, or the Hospital Services Commission, as revenue to them, and there was no footnote. The result was it took me quite a while to figure out that the reduction in revenue for the province was only a transference of premiums, instead of going formerly into government revenue and disbursement, was directed directly to the Manitoba Hospital Commission and didn't show up anymore. Now, there's nothing wrong with it being shown that way but what I am pleased to know is that we now have footnoted these changes, so that we know what they are whereas formerly it was much more difficult to follow when it wasn't even footnoted.

**MR. LYON:** Mr. Chairman, Mr. Cherniak as usual with his agile mind raises another question in my mind, and let's deal specifically with the so-called municipal share which for 1977-78 is estimated at \$13,600,000.00. That, along with \$95 million on Property Tax Credits and \$25 million on the Cost of Living Tax Credits, I add it up quickly to roughly a rounded out number, \$134 million, something like that. Dealing with the municipal share, that is money granted, that is dedicated to the municipalities of Manitoba in substitution for the old *per capita* grant system that we have. But that money, unless I am mistaken — please correct me if I am wrong — that money is paid by the personal income taxpayers of Manitoba and then is remitted back to the Provincial Treasury of Manitoba, it comes into the Treasury of Manitoba and then, in turn, cheques are written, presumably on the formulae that are developed for this payment, cheques are written by the Treasury of Manitoba to the municipalities

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pay out the equivalent of the two points, which is as it should be. So, I raise the question as to how that can be shown as an offset against revenue in the gross sense when it actually is paid, comes into the Provincial Treasury and is then disbursed by the Provincial Treasury to the municipalities.

**MR. CHAIRMAN:** Mr. Cherniak.

**MR. CHERNIAK:** Oh, I don't quarrel with Mr. Lyon at all. I would personally rather see it that way but all I'm saying is, no matter which way it's done, as long as it's revealed, it's important. I personally look at it as a program and therefore I would like to see it his way but that doesn't mean I'm right or he's right; I am just saying somebody has to take the responsibility for presentation and the important thing is that the story be revealed and that the Auditor can confirm that that is what is the actual fact. So I don't quarrel with Mr. Lyon.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** Well, I'm interested to hear Mr. Cherniak's comments. Naturally I would be much more interested to hear the Minister's comments as to whether he agrees or disagrees.

**MR. CHAIRMAN:** Mr. Miller.

**MR. MILLER:** Well, Mr. Chairman, I believe that on the two points of personal income tax, I don't think this is the first year that this has appeared this way. I think last year — 1975-76, was this the first year?

**MR. CHERNIAK:** Mr. Lyon wasn't here then.

**MR. ZIPRICK:** This is the first year that it's appeared.

**MR. MILLER:** The municipal was last year. It was a year ago.

**MR. ZIPRICK:** Oh, the municipal. I thought you were talking about the points, Sir.

**MR. MILLER:** Well, the municipal was last year and the municipalities can, by bylaw, increase that amount if they want an increase in the income tax payable, sharing in the income tax, it's a growth tax, they can ask the government and the government will seriously consider increasing personal income tax in Manitoba at the request of the municipalities so that it's up to the municipalities really to levy his although the collection system is such that it would have to go through us, of course, because we have to go through the Federal Government.

**MR. CHAIRMAN:** Page 11. Mr. Lyon.

**MR. LYON:** Do we have any, or can we have any advice from Mr. Curtis or members of the department? When the various prospectuses are drawn up for borrowings that are going to be taking place in the future, what will be the method of demonstration of personal income tax, to use that as only one example, will it be grossed up as it used to be? Will it be grossed up for the purposes of borrowers and if it is going to be grossed up for their purposes, might I respectfully suggest that it should be continued to be grossed up for the purposes of the Legislature and the people of Manitoba?

**MR. CHAIRMAN:** Mr. Curtis.

**MR. CURTIS:** I would speak to that. We would reflect in our prospectus statements those statements that we would show to the House, in other words, we would use the same format. If our underwriters recommended that we noted in our prospectuses more detail as to how the revenue was distributed, then we would add it as a footnote. Now, we can also do the same in our statements in the House, if that were thought to be valuable.

**MR. LYON:** If I could ask, Mr. Chairman, what are the advantages of demonstrating, using the personal income tax, demonstrating that figure at, in the Estimates as they were given to us on Friday, 190,971,000 footnote (1) when in actual fact, the figure as we've noted is going to be well in excess of 300 million. What are the advantages of showing at that?

**MR. CURTIS:** Well, with our view, having looked at other provinces that this in fact was a distribution of funds to other parties and therefore was not revenue that could be used by the province. In other words it was dedicated. It was dedicated as tax credits, therefore, not net general revenue to the province.

**MR. LYON:** My simplistic point, and if I'm wrong for heaven sakes shoot me down, but my simplistic point is that when taxpayer A fills out his return and the bottom line shows that his provincial tax payable is say, for the sake of argument, \$1,000. That's what he pays! And out of that \$1,000 that is collected by the Federal Government somebody else by way of a cost of living or a tax rebate is going to get the proportion of that back. Literally that money — I can see the point — literally that money will not enter the Treasury, so I can see more of a justification — I'm arguing against myself — but I can see more of a justification for the method of demonstration on property tax and on cost of living than I can on municipal. But the point still remains, the fundamental point still remains at the tax is paid. The fact that it is redistributed to another person without entering the Treasury is all secondary.

**MR. CURTIS:** Of course that's also a part of the filing of the return. You're also filing at the same time with your income tax return, your property tax credit form. With respect to the municipal part, we so feel that we have no control over it now, because under the Municipal Tax Sharing Act that was passed that two percent is dedicated to the municipality. Therefore we've lost control of it. In effect it's not our revenue.

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**MR. LYON:** Yes, but by the same token, Mr. Chairman, under the schedules that are drawn up for public assistance that money is dedicated in the sense that we know how much indigent taxpayer or indigent citizen so and so is entitled to receive provided he meets the needs conditions and so on. That's dedicated too, and I just fail to see the difference. It's money that is being redistributed. One of the great functions of government today is to redistribute funds. All I'm quarrelling about really is not the fact of redistribution, the method of demonstration of redistribution. I really fail to see the merit of this form of demonstration. That's the point I'm making.

**MR. CURTIS:** I can see Mr. Lyon's point of view. It's a matter of view.

**MR. CHERNIACK:** The example that Mr. Lyon has used several times now of welfare payments is really erroneous. The moneys that are paid for welfare payments are the same kinds of money that are paid to support the Leader of the Opposition, General Revenues that come in from all sorts of sources, even from stumpage fees whereas the moneys that are paid to municipalities are recognizably the moneys that come from income tax only from the two percent. So it is a bad comparison to bring in welfare as being of a similar nature. Welfare payments is a program of government determined in a different way and using General Revenues. I just want to point out that in this latest prospectus that I referred to earlier, December '76, there is a line which reads "Commencing in 1976 of the revenues derived from the provincial individual income tax and the basic 13 percent provincial corporate income tax, 95.3 . . ." — and by the way, earlier it does say that the income tax is 42.5 percent — and let me come back to what I was quoting, ". . . 95.3 percent and 92.3 percent respectively will be allocated to the province and 4.7 percent and 7.7 percent respectively will be allocated to the province's municipalities." So, again, it is important that the people who are being asked to lend money to the province do have the information. That's why I don't argue as to the manner of presentation. All I do is express my satisfaction that the facts are there and revealed.

**MR. LYON:** Well, just on that point and if it's not germane to this item, it's germane to the method of presentation. Could I raise the question, Mr. Chairman, again on the Estimates of Revenue that were tabled by the Minister on Friday, the gasoline tax as an example estimated \$58 million for '77-'78 less premium assessment transfer to MPIC \$6 million and it nets out at \$52 million. Now I would be interested to know and I don't recall how that revenue figure is demonstrated in the prospectus of December 1, 1976. Is it grossed up to show that actually the people of Manitoba paid \$58 million for gas tax last year. The fact that \$6 million went as a subsidy to MPIC. . .

**A MEMBER:** It's not a subsidy. It's not a subsidy.

**MR. LYON:** Well, it's a subsidy. That's what it is. If you take that \$6 million off and reflect it in your premiums you'll find out how much of a subsidy it is.

**MR. CHAIRMAN:** Mr. Miller.

**MR. MILLER:** I was just quarrelling with Mr. Lyon that it's not a subsidy at all. One could eliminate totally the premiums and simply move to having all the Autopac premiums paid by mileage, by the amount of gas he used. The more you use the more you pay and some have argued — that's right — some have argued that that perhaps is the best way to do it. — (Interjection) — But, well you wouldn't but what we have done is simply take a certain percentage of the gasoline tax to reflect the argument and it's a good argument that those who put on more mileage should be paying a higher premium for their automobile insurance.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Well, Mr. Chairman, I again come back to the statements that I have before me. Firstly, it is very clear that no matter how anyone wants to interpret it, the fact is that part of the cost of public automobile insurance which is now part of the program of the Conservative Party, part of those costs include the two cents per gallon used in the gasoline consumption in this province, and therefore it is shown here that we have general revenues from gasoline tax and from motor fuel tax and in the prospectus it shows exactly the same as in the form itself, it shows the moneys received by the Province of Manitoba General Revenues as being revenue from gasoline tax and motor fuel tax.

Now the amount which is collected for and on behalf of the MPIC as part of the income required by the Insurance Corporation is not shown as being revenue of the Province of Manitoba because in fact it isn't in the prospectus. In the prospectus all they show is what is actually received. The fact that the province has agreed to allocate revenues to MPIC from three sources, one is collected from the driver, the other collected from the vehicle and the third collected from the consumption, is a method of financing MPIC which is known to the world and even for the Conservative Party, so that again the facts are there and the General Revenues of the province do not include the premiums or money raised for premiums for the MPIC. Now if one says there's a subsidy then the whole principle of insurance is cockeyed, because the whole principle of insurance is sharing. Let me tell Mr. Lyon that even long long before he was born, like 200 years ago, I imagine it was John Hancock who not only signed his name, but seems to have founded an insurance company which said that one shares the risk. In other words one subsidizes the other. There is a subsidy by the insured who is fortunate enough not to have to make a claim, a subsidy to that one who suffers a loss, and that is the principle involved in insurance. He didn't know that apparently.

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**MR. LYON:** Well, I do know this, Mr. Chairman, my honourable friend is now arguing the validity of his methods or his government's methods of financing MPIC.

**MR. CHERNIACK:** . . . which you're not changing.

**MR. LYON:** I didn't say we wouldn't change the methods of financing.

**MR. CHERNIACK:** I wish you would tell us. Tell us the truth.

**MR. LYON:** I do know this, there are old age pensioners in Manitoba who do not drive a car, do not pay gasoline tax, but do pay gasoline tax on the trucks that drive their groceries into the stores that they have to buy and that's a cost that they have to bear as general taxpayers of Manitoba even though they don't drive a car. I know that. And if my honourable friend wants to comment upon the equity of that why that's fine and dandy by me.

**MR. CHERNIACK:** . . . those people are paying the taxes and the expenses that are being used by people who drive trucks, and those people have always been using those trucks in that way

**MR. CHAIRMAN:** I'm afraid we've strayed from the Auditor's Report again gentlemen. If we can pass Page 11. Mr. Lyon.

**MR. LYON:** Getting back around the circle, Mr. Chairman, to my question.

**A MEMBER:** It's in the prospectus. It's in the prospectus, but is the figure shown the grossed up figure or is it shown with the subsidy pardon with the portion that's dedicated of the gas tax to MPIC. Because again the borrowers and the people of Manitoba want to know essentially the same information. How much are they paying in toto for gas tax this year? The fact that the government through some jiggery-pokery decides to slip off 6 million bucks into MPIC is of no particular concern to foreign lenders, but it is of crushing concern, I'm sure, to people in Manitoba and the method of demonstration here I find no objection to it. We find that the gas tax is 58 million less the amount that is paid to MPIC. I think that's a good method of demonstration. Why is not that same method of demonstration used for instance with respect to individual income tax. Why not show the gross figure then deduct the municipal and the cost-of-living and the tax rebate so that you've got a franker document really.

I commend what you're doing with respect to gasoline tax. I say why don't you apply the same principle to individual and personal income tax. It's a question of moving it up from the foot up to the top and showing your grossed up figure.

**MR. CHAIRMAN:** Page 11—pass. Page 12. Mr. Lyon.

**MR. LYON:** Corporation Income Tax decrease of \$17.1 million, Mr. Chairman, the Auditor shows this as being attributable to a reduced level of taxable profits and a reduction of 4.5 million in adjustments. Now that in turn reflects I take it, a general reduction in corporate profits in Manitoba. Has he any figures to indicate the numbers of corporations paying tax in Manitoba as between the years.

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** No, I haven't any figures on that.

**MR. CHAIRMAN:** Mr. Miller.

**MR. MILLER:** Mr. Chairman, you know, these figures do fluctuate from year to year. They are instalments based on current estimates. We take the Federal Government's projections as to what might be anticipated in any of the years. Then it includes adjustments from previous years and it also reflects changes in the tax structure which may occur during that year, which affect the income. There was one year, I believe, where there was a change in the corporations which affected the corporation income tax where the Federal Government revised the income tax rules applicable to resource revenues to allow for a partial deductibility. This affects the amount that we might receive in a year as well. So it's impossible to be precise or to hit it on the head because we're dependent entirely on not only what the Federal Government projects, but what in fact does occur to the tax system during the course of the year.

**MR. CHAIRMAN:** Gentlemen, we obviously will not finish Page 12 today, would it be the wish of the committee to have the committee rise? Committee rise.