

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, 26 January, 1988

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. D. Blake (Minnedosa)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Doer, Kostyra

Messrs. Baker, Blake; Mrs. Hammond;
Messrs. Maloway, Manness, Scott, Smith (Ellice)

APPEARING: Mr. Fred H. Jackson, Provincial Auditor

Mr. John Singleton, Assistant Provincial Auditor

Mr. Charles E. Curtis, Deputy Minister, Department of Finance

MATTERS UNDER DISCUSSION:

Report of the Provincial Auditor to the Legislative Assembly for the fiscal year ended March 31, 1987

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MR. CHAIRMAN: We're in the Public Accounts Committee, so we'll proceed with our meeting.
Mr. Manness.

MR. C. MANNES: Mr. Chairman, before we proceed, Mr. Johnston, one of the members of the committee, cannot be here.

MR. CHAIRMAN: I have his resignation.

MR. C. MANNES: You do?

MR. CHAIRMAN: Yes.

MR. C. MANNES: Do you need a motion to give that . . .

MR. CHAIRMAN: I have before me the resignation of Mr. Johnston. I am now accepting nominations.

MR. C. MANNES: I would move that Gerry Hammond, the MLA for Kirkfield Park.

MR. CHAIRMAN: It is moved that Mrs. Hammond, the Member for Kirkfield Park.

HON. E. KOSTYRA: Yes, we support that.

MR. CHAIRMAN: Do I need a seconder?

A MEMBER: I'll second it.

MR. CHAIRMAN: Seconded. Agreed? Thank you.
I also have before me the resignation of Mr. Conrad Santos. I'll accept nominations to replace Mr. Santos.

HON. E. KOSTYRA: I move Mr. Cowan.

MR. CHAIRMAN: It's been moved that Mr. Cowan replace Mr. Santos. Do we have a seconder? Mr. Manness. It's been moved and seconded. All in favour? Thank you. Agreed.

I also have before me the resignation of Mr. Steve Ashton from the Public Accounts Committee, and I'll now accept nominations to replace Mr. Ashton.

MR. C. MANNES: Mr. Chairman, I move that Mr. Connery replace Mr. Ashton.

MR. CHAIRMAN: I have a nomination that Mr. Connery replace Mr. Ashton. That's been seconded. Are there any further nominations?

HON. E. KOSTYRA: I move that Mr. Baker replace Mr. Ashton.

MR. CHAIRMAN: I have the nomination of Mr. Baker to replace Mr. Ashton. Do we have a seconder for that nomination?

A MEMBER: I'll second that one.

MR. CHAIRMAN: I have received the nomination of Mr. Connery to replace Mr. Ashton, and also a nomination of Mr. Clarence Baker to replace Mr. Ashton.

All in favour of Mr. Connery, say aye. All those opposed, say nay. All those in favour of Mr. Baker? In my opinion the ayes have it. Mr. Baker is now replacing Mr. Ashton on the committee.

We now have the vacancies filled on the committee: Mrs. Hammond replacing Mr. Johnston; Mr. Baker and Mr. Cowan replacing Mr. Conrad Santos and Mr. Ashton.

We'll now proceed with the business before us, and that is the examination of the Provincial Auditor's Report in the Public Accounts Committee. What are your wishes, gentlemen?

Mr. Kostyra.

HON. E. KOSTYRA: Mr. Chairman, I would suggest that we commence with the Provincial Auditor's Report, and then follow through with Volume 1 and Volume 2 of Public Accounts. I would just like to make a couple of short comments.

It's noteworthy that this is the earliest occasion that the Public Accounts Committee has met to consider both the Provincial Auditor's Report and Volumes 1 and 2 in Public Accounts. In fact, I think it's the earliest in recent memory in terms of this committee dealing with these reports.

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I also understand, reviewing other provinces, that this is considerably earlier than provinces like Saskatchewan that don't do it till well into their new year, and other provinces. So I think we've shown some leadership in terms of ensuring that the committee has the information on a timely basis to consider.

There was a request from one committee member requesting some questions on Volume 2 of Public Accounts. I have been able to provide some responses to the questions; others are being worked on. Once they are ready, they will be available for tabling with the committee. So maybe I can ask the Clerk to distribute copies of those responses that are available and the others will be made available as soon as possible.

MR. CHAIRMAN: Thank you, Mr. Kostyra.
Mr. Manness.

MR. C. MANNESS: Mr. Chairman, let me say, in reply to the Minister, that from our point of view we're happy to be able to sit at this early date. To refresh the memory of the Minister and members present, for some number of years now we have recommended that this early sitting of this committee occur. It is something that has been spelled out also by the Provincial Auditor. I'm glad that the government, in their wisdom, saw fit to see this committee sit at this time, and I dare say that if the Department of Finance could prepare their financial statements somewhat more quickly after the year-end, if at all possible, that maybe this committee could even sit at an earlier date and I'm thinking of maybe even late within the calendar year.

I look forward to entering the discussion on many of the Provincial Auditor's recommendations and concerns at this time.

MR. CHAIRMAN: Thank you.

The preamble on the Table of Contents I assume will be accepted, and we'll move to page 1 of the Provincial Auditor's Report.

Page 1—pass; page 2—pass.

Page 3 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, my question to the Provincial Auditor, before we go too much further on.

Have there been any special audits conducted by the Provincial Auditor's Department since April 1, 1987? Have they been completed or are there any being conducted at this point in time?

MR. CHAIRMAN: Mr. Jackson.

MR. F. JACKSON: No, Mr. Chairman, there are no special audits in process or under way and none have been completed.

MR. C. MANNESS: I would ask the Provincial Auditor whether he is mandated at all to look at the horrific losses associated with the Manitoba provincial insurance company, MPIC?

MR. F. JACKSON: We are not specifically mandated, Mr. Chairman, to look at specific operating results of any Crown agency. But what we do is we do an overview

audit, if you will, after the fact of organizations to review certain aspects of their operations, and we plan on doing that for MPIC again this year.

MR. CHAIRMAN: Mr. Manness, before I recognize you, there is some material that the new members on the committee haven't received that was provided to members of the committee a week ago. I'll have the Clerk distribute those to the new members and we'll carry on.

Mr. Manness.

MR. C. MANNESS: I would ask the Auditor when this overview audit will be commenced and when will it be completed?

MR. F. JACKSON: We normally commence the audit subject to the completion of the annual financial statements of the entity and we try and work that into our schedule so that it's completed about six months subsequent to the release of the financial statements of any of the Crown entities.

MR. C. MANNESS: Does that mean then that the overview audit will not be reported in the fiscal year ending March 31, 1988?

MR. F. JACKSON: One of the things that we endeavour to do is we endeavour where it's possible to report on the Crown agencies that have fiscal year-ends that end at March 31 of the fiscal year that we're reporting on or that have ended during that fiscal year. So if a Crown agency has a December year-end, we would include that in our report on the operations for the government for the next March.

MR. C. MANNESS: Mr. Chairman, I would ask the Auditor whether there have been any other types of audits that have been done which are outside of internal financial audits?

MR. F. JACKSON: Each of our overview audits that we do on Crown agency audits, where we are not the attest audit, go beyond, if you will, what might be referred to as an attest financial audit and in those audits we look at the communication systems that are in place within the Crown agency, the management information systems that are in place in the Crown agency.

If we think there is an opportunity for improvements, we provide comments and audit observations recommending that improvements be made.

MR. C. MANNESS: Mr. Chairman, moving specifically to page 3, the Auditor takes great effort in the first two or three pages to point out the balance that he's trying to bring forward in his report.

I would ask the Auditor why he has made such a great emphasis on the so-called balance that he's hoping to provide by way of offset against some of the criticism that he levies against the government?

MR. F. JACKSON: Mr. Chairman, what you're seeing is something that legislative auditors across Canada are endeavouring to do.

They are trying to bring a balanced perspective to their report so that the reader is left with some kind of conclusion or some kind of balance to the report, so that when one has read the report in its totality, one has a better opportunity to get an overall perspective of government operations rather than a situation where you might just read about the Bonaventure and learn that there have been problems associated with that in the way of cost overruns that look terrible - if you look at that in isolation.

But there there is an attempt being made to provide an analysis or an increased analysis as to the factors that might have caused a cost overrun, including such factors as inflationary factors. Once they got into work on a ship, they found things that weren't evident at the outset and that one could better put an isolated incident such as that into perspective for the totality of operations.

But we're not doing this in isolation. Both the Auditor-General of Ontario, the Auditor-General of Canada, for example, have been making concentrated efforts to bring better balance to their report so that the primary reading audience, i.e., the MLA's have a chance to better appreciate - is everything terrible or are just some things more terrible?

MR. C. MANNES: Mr. Chairman, also the second last paragraph on that page, the Auditor says that: "Overall there is a much greater awareness of the need to get more out of the funds appropriated by the Legislature." Mr. Chairman, it seems to me that comment begs the question, were we not getting everything out of the funds over the last number of years?

MR. F. JACKSON: One of the things that has been changing over the last number of years is the economic situation that the government has found itself in and members of the business community generally have found themselves in. It's created quite a different operating atmosphere today than what it was 10 years ago.

If my memory serves me anywhere near right, 10 years ago we had basically all in an expansionary mode where we were trying to do more constantly and we all had expectations that the budget would constantly get bigger and there would be sufficient funds for all programs. I think the environment has changed. There has been a real turnaround in our relationships with managers at various levels and in various organizations. We certainly get the feeling that more isn't the mode today. There are expectations for trying to make sure that for every dollar that's voted by the Legislature there is more concern that the taxpayers are getting value for their money.

MR. C. MANNES: Mr. Chairman, my direct question again to the Provincial Auditor: In doing the audits of government departments, is he coming to the conclusion that there is greater inefficiency associated with the expenditure of hard-earned tax dollars?

MR. F. JACKSON: No, Mr. Chairman, just the contrary. I would say that our reading of what is happening throughout the government at this point in time is that from senior managers on down there's the expectation

that we don't take things for granted as much as we did before.

I know that for our office in particular we're examining all of our levels of expenditure and, while we've always budgeted, we're reviewing each of the budget items more carefully and making sure that we've considered alternatives to that level of expenditure before we expend it, even though we may have considered that to be an appropriate type of expenditure pattern in the past.

So we are giving greater attention to how we're spending our money, and are we really getting as much efficiency out of that dollar expenditure as we might.

HON. E. KOSTYRA: It seems that Mr. Manness is trying to make some bad news out of what is reasonably good news.

I would portray the comments on this page somewhat akin to a report card. When a report card is issued it usually reflects on previous concerns that were expressed. What this page does, as I understand it, is take us through a number of issues that were raised by the Auditor previously, that the government has taken positive action on it.

The list, Mr. Manness, is quite extensive. It goes through a number of areas that were raised in previous reports, where the government has taken positive action to respond to the concerns of the Auditor.

So I know Mr. Manness might be concerned at seeing this page but it is a report, a report card, in essence, of positive action that this government has taken to improve and enhance accountability within the public sector. So I think it's good to have this kind of reporting on matters that previously were of concern and the government has acted on in a positive fashion.

MR. CHAIRMAN: Page 3 - Mr. Manness.

MR. C. MANNES: Mr. Chairman, I'll respond to the Minister's comment on page 5.

MR. CHAIRMAN: Page 3 — pass; page 4 — pass.
Page 5 - Mr. Manness.

MR. C. MANNES: Mr. Chairman, the Minister would like the people to believe that the Auditor has given the government good marks for having properly accounted the practices of government, the financial practices of government.

I then ask the Auditor why he indicates in the bottom of this page: "We report significant instances of non-compliance with authority to the Assembly."

Mr. Chairman, I have read all the Auditor's report over the last number of years, and I've never seen wording that strong. The Minister can tell me on one hand that he, in his view, is doing a good job - that the government is doing a good job - and yet here we have it in bold print by the Auditor that they report significant instances of non-compliance with authority to the Assembly.

Mr. Chairman, that says to me that the government is going beyond its legislative mandate to spend money in a number of areas and by a number of instruments.

My question then to the Auditor: Does this, basis his comment here, show a total disregard for the authority of the Legislature by the government?

MR. F. JACKSON: Mr. Chairman, what we're setting out to do on page 12 is to provide some information and background material to our approach in meeting our mandate. One of the things that we're bound to do, according to The Provincial Auditor's Act, is to report significant matters which, in my opinion, are significant and important to the Legislature.

We view several things as being important and significant to the Legislature. We view expenditures within the limits set by the Legislature as being extremely important and that goes way back in legislative history and auditing history in that it's the Legislature that provides the authority for public expenditure.

Over and above the Legislature expenditure control, one of the other concerns that we read into our act is that the money that is spent has to be spent for the purposes for which it is voted.

And thirdly, we do a type of auditing that's known as compliance auditing so that the purposes of the money that's voted are fulfilled during the expenditure process. As a consequence of that, that gets us into the compliance issue.

So we report in our report to the Legislature the first two things that I have mentioned, as well as any significant items of non-compliance. That's not new. That's something that has been in our mandate for a number of years, and there have been instances from time to time where non-compliance issues have been reported. Also this year, there are again several issues of non-compliance that are included in our report this year.

MR. C. MANNESS: Mr. Chairman, we'll deal with those in due course. I am prepared to pass page 5.

MR. CHAIRMAN: Page 5—pass; page 6—pass; page 7—pass.

Page 8 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, there's only one of the matters of concern and recommendation that I will deal with in depth at this time, because this is the summary at this point. But there's one that I want to deal with in some depth at this particular point in time, although I will deal with all of them in due course, and it's under the Department of Education.

Mr. Chairman, I am well aware that Provincial Auditors for a number of years have recommended to the Provincial Government, or to the government, that they make changes with respect to the manner in which education revenues flow as between the collecting municipality and the school divisions. The government has put into place a new policy as stated, I believe in the last number of weeks, as to how they would give effect to this type of policy change.

I would ask the Auditor whether or not when he - and indeed his predecessor has made these recommendations - whether or not it was taking into account the efficiency with which education taxes were collected at the municipal level under the existing system and how that efficiency may be totally destroyed by the implementation of the new policy brought forward by the Provincial Government.

MR. F. JACKSON: Excuse me, Mr. Chairman. May I ask Mr. Manness what he's looking for in the way of

efficiency? Maybe he could help me just with what he means by that.

MR. C. MANNESS: Mr. Chairman, I have it on pretty good authority that, first of all, the Provincial Government, through the Department of Education and local school boards, issued global requests to municipalities as to how much money they should collect in support of the government support of the education levy, i.e., the old Foundation Levy, and the local school board issued in terms of the special levy. That was a global figure which the municipalities were responsible for collecting.

It is my understanding that the local municipalities then, basis the time commitments given to them, remitted a share, 20 percent of that global figure or 40 percent, I believe, and 60 percent - and I haven't got the order right with respect to the Foundation Levy or the GSE levy - regardless as to what flow of funds had occurred to that point in time.

I understand now, under the new policy, they'll be expected to remit the 15th of the month following that month all the amounts of money that have come in, have actually flowed to the various municipalities. There are very many municipalities, Mr. Chairman, that have more than one school division. They are collecting for four school divisions at different rates, at different levies. I'm talking about, specifically, the special levy.

How are the local municipalities to be compensated now for their much more onerous task of collecting on the basis of differing rates, on the basis that the tax levy stub itself does not indicate what school division that is paid under?

I am asking, therefore, the question to the Auditor, how it is that the municipalities should be recompensed for all the additional work that they are going to have to put into collection and/or is the Auditor saying, well that's not his concern, that efficiency is secondary to the idea of fairness, as has been stipulated by his department for a number of years?

MR. F. JACKSON: Well, Mr. Chairman, we are not the auditors of the various municipal corporations that will be involved here, but the turnover of funds that are collected from municipalities have always been at the direction of the Provincial Government through regulation. One of the things that the municipalities are charged with is undertaking to collect the levies and school taxes that are levied to meet the school board demands.

So the collection requirements, to some extent, are based on the dates that the various municipal institutions set for the due dates of their taxes, and those due dates are not the same in every municipality. They vary within municipal corporations.

I am aware that there have been, in times past, certain of the municipal corporations that appreciated that the money coming to them for school tax purposes was basically for school tax purposes, and that could be used as investment by the municipal corporation to increase their revenues until such time as it was required to turn that over to the school division. To some extent, that option is still there, as I understand it, in that taxes that are collected from the first of January through to some later date, in June I believe when the first payment

is required, can still be used for investment purposes by the municipal corporation.

Secondly, we have such a thing in the Manitoba economy as a money market, so that even monies that are collected and available to the municipal corporation for one day, ten days or fifteen days can still earn revenue for that municipal corporation. At a certain point in time, the last monies that are collected don't have to be turned over to the school divisions until early January of the following year, so there again is another opportunity for municipal corporations to use the money market for short-term investing of school division funds.

Now, historically, I've been given to understand that the City of Winnipeg used to recognize that the school divisions needed funding in addition to that which was required by the regulations of the province to be turned over, so they in fact were making loans to the school divisions of certain of their funds at a rate slightly below prime, as I understand it. So that it is a complex issue, but I understood as well that each of the tax billings that go out are all inclusive and include the special levies for the school divisions, the property taxes on which school division taxes are raised, as well as the taxes for municipal purposes. So they just issue one bill; they just have to ensure that one bill is collected, and there are provisions in The Municipal Act to add penalties to their school division taxes and the general taxes, if in fact the taxes aren't being paid in time.

So it is my understanding that generally municipal corporations aren't out of pocket by turning the money over to the school divisions.

MR. C. MANNESS: Mr. Chairman, Mr. Jackson doesn't answer my question. Everything he states for the record is certainly accurate; I have no question of that. I am not even questioning the principle and the change in policy. I asked the question specifically whether, because I have to believe that a Provincial Auditor and indeed hopefully the Department of Finance is very interested in efficiencies along the line, and I ask again, the Provincial Auditor, whether this is an efficient change. I am well aware there is still an opportunity for municipalities to make some interest earning but now there is an awful lot more work associated with a tax remittance coming in and trying to earmark it specifically to the school division that it is going.

You can imagine, if you are collecting, not for one school division, which totally complements the municipality, but four or five that are caught in that, that a tax payment coming in now has to be earmarked as to where it goes and where it is funnelled. That is not recorded on the municipal tax statement. And my concern is that there is an awful lot more cost that is going to be associated with the new system. I draw into question whether or not there is less efficiency associated with that, and I also draw and I ask the Auditor to comment as to who should pay for this.

MR. F. JACKSON: Mr. Chairman, I will have to answer that without having the kind of detailed knowledge that I'd feel most comfortable with in having, so I'll answer it in a general way. It is my understanding that today most large organizations have computer facilities at their disposal, and I think that boundaries are set for each

school division so that if certain streets fall within those boundaries it can be readily determined which tax notices, etc., fall within certain boundaries. I would not deduce that it would be a tremendous job to have your computer at work for you to determine, for yourself, or for the entity self, which taxes that are going to be collected relate to which school division. I am aware from today's paper that there seems to be 11 school divisions in the City of Winnipeg, and that would be a complex issue, but we all have computer technology to benefit us today, so I wouldn't see it as a tremendous problem at all.

When we made our comments since 1972 we were dealing with efficiency for the total spectrum of the public expenditure here and that involves school divisions as well as municipal corporations; and what we didn't see that was efficient were school divisions having to go out and borrow money at a higher rate than necessary when the funds were already available within the system.

MR. C. MANNESS: A final comment on this, Mr. Chairman.

I recognize fully that the City of Winnipeg, with a budget of several hundreds of millions of dollars, would have those computer technologies available to them. I dare say, though, Mr. Chairman, there are many, many other municipalities in the province that do not have the facilities to them, and that new process of earmarking tax remittances as to municipalities will be very much a manual task and there would be commensurate costs that go along with that.

That's the only point I'm trying to make. I would hope that the government would realize that this is an added burden on municipalities and would see fit to somehow compensate municipalities for their additional costs associated with this new method of remitting public education dollars.

HON. E. KOSTYRA: Mr. Chairman, it's interesting that the government is being criticized for again dealing in a responsible way with one of the major concerns that have been expressed by the Auditor, that in the past the Opposition has been saying we haven't been acting on, and here this is in addition to what I described earlier because this one won't be commented on, I presume, until next year, because the action has been taken in the ensuing fiscal year, but let's just recognize what was going on in the past.

The fact that the municipalities were putting that money away and earning interest on it at the same time as the school divisions had to borrow those funds meant that the net beneficiary of that arrangement was not municipalities, was not the school divisions, was not the taxpayers of the Province of Manitoba, but were those institutions that were getting the difference between the spread on the interest that was being attained by the municipalities by putting that money away and that which school divisions were paying out because they had to borrow the money. So it wasn't the taxpayers of the Province of Manitoba that were benefiting by that. It was the financial institutions that were in the position of doing the financing, so the net impact of this will have a positive impact overall for taxpayers. The government certainly recognizes that

there may be some - so in saying that, I mean it was the school divisions that were being negatively impacted as a result of the previous method of dealing with these payments.

Having said that, the government and, I know, the Ministers responsible are going to be meeting with school division officials, municipal officials, both urban and rural, to look at any implementation problems that will arise out of this policy decision dealing with a long-standing concern of the Provincial Auditor.

MR. C. MANNES: Mr. Chairman, the Minister is overly sensitive. I was not critical of the policy change in its purer sense. I tried to draw out some of the greater efficiencies that may be associated with the policy statement as it stands today. I did not criticize the change, and I just want to put that on the record.

MR. F. JACKSON: Just something further that might be helpful to your earlier question, Mr. Mannes, is that all of the tax rolls are processed by the Department of Municipal Affairs, other than the City of Winnipeg, and that's done through one of the Crown agencies, Manitoba Data Services. There may well be an opportunity for those rural tax rolls to ask the municipality to provide boundary segregations on those as well so that they may be able to be facilitated. If that was the case, probably the extra processing time would be a burden of the Department of Municipal Affairs, but there may be some relief through that process.

MR. C. MANNES: Mr. Chairman, I take some comfort in that statement. Indeed, if it's acted upon in that type of manner, certainly that will help.

MR. CHAIRMAN: Page 8 - Mr. Scott.

MR. D. SCOTT: Yes, just before you pass page 8, on the bottom of page 7 and top of page 8, in dealing with the unfunded liability and pension costs for public employees, I understand from the committee here and that I've heard before as well that the Canadian Institute of Chartered Accountants have set up a study group to look at this, as it's a relatively newly identified issue as far as they are concerned. I don't believe that this has been raised to this height at least and this prominence in the past in Manitoba, and it's not something that certainly relates to this government or this Minister of Finance. It's something that's a very long-term issue, I guess, that the accounting professions are picking up on now and saying that we have to recognize the extent of the obligations we have to both retired employees and those people who are currently in the employ of the public sector to make sure, I guess, that their pensions are secure as we go into a more and more uncertain future.

I am wondering if you could give us any more. I know you have written your report; some of this material would be two or three months old. Now I'm wondering if the CICA has gotten any further, Mr. Provincial Auditor, or Mr. Jackson, in its study. Have they given any preliminary findings and recommendations that they will be coming forward with?

MR. F. JACKSON: Mr. Chairman, I am participating on certain of the committee work in the PSAAC committee.

But as well as myself, there are two senior officials of the Department of Finance that are participating in this undertaking as well, one of which is the Deputy Minister of Finance and the second of which is the comptroller of the Province of Manitoba.

It is my understanding that the draft material that you have referred to is almost ready for public release and that it might not be unreasonable to expect that that material would be ready for release publicly sometime within the next three months.

MR. D. SCOTT: Just in dealing with this, I'd like to get an opinion, I guess, of the Provincial Auditor since he has raised it here to the extent that he has. Something I'm involved with, I guess, through the Telephone System, back in 1983, prior to my involvement, they made a decision to start funding the unfunded liability and have so far put about \$50 million or possibly \$60 million - is it \$62 million? - in total towards that unfunded liability. Their proposal is, over a 15-20 year period, to reduce the overall unfunded liability to zero, and this is something that the corporation has done essentially on its own to try and eliminate - and have fully funded, I should say - eliminating any future liability or unfunded liability and have the pension fund fully funded not only from the employees' side but also from the corporation's side.

I'm wondering if you could give a comment as do you think that's an appropriate way to go? Is it going too fast? What sort of opinion have you expressed or do you express on this? I didn't note anything in here. You lump in the telephone corporation along with hydro in the general government and don't recognize what appears to be to me at least a difference in policy between them.

MR. F. JACKSON: Mr. Chairman, perhaps I could answer that in a general way. Then I would ask one of my associates to respond with greater detail.

Maybe at this time it would be convenient for me to introduce to the new members of the committee - on my right is the Assistant Provincial Auditor, Mr. John Singleton, whose main area of responsibility is Crown agency operations and audits, and on my left is Mr. John Bothe, who is the director of Public Accounts Audit, and his main area of thrust is the government departments and the financial statements of the government as a whole.

Maybe I will answer that question just generally. One of our concerns and reasons for raising this as the problem is that we feel that basically Crown agencies should be operating with a balanced budget, or with the idea of making small profits at least as they go, and to recognize full costs of their operations when they are coming to the bottom line. Just as we have pointed out for the province that there is about \$92 million for pension costs that really aren't being reflected in the financial statements of the government as a whole, there are also pension costs that aren't being reflected in the Crown corporations such as Manitoba Telephone System. So we really feel that the cost-accounting systems for the Crown agencies should be such that the full pension costs are recognized in each of the years and that the rates should be set to cover those full costs.

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We're particularly concerned re the Manitoba Telephone System because we are very much aware that the operations of the Telephone System may be changing and that there may be less opportunity to fund such a significant section of the corporation's operations through long distance charges as has been the case in the past. This means to us if there is a chance of shortfall in revenues that there may not be such a large base out there in the future to fund pension costs as there is today or has been in the past when these benefits have been earned. So the worst scenario that we could imagine is that the rate base for one reason or another may be falling off at a time when the pension costs are coming on.

For those of you who have read the Provincial Auditor's Reports in times past, you will remember that, starting in 1978, we were pointing out that the employers' portion of salary costs being paid for pension plans were somewhere around 1.5 percent and that percentage was going to increase, to the year 2002, to 7.2 percent. Well, that's a 4.8-fold increase and that means to us, at least, that today's costs aren't being fairly reflected in the costs of the entity and we think that they should be. We think that today's subscribers should be paying for the pension costs that are being earned by today's employees.

Perhaps now I'll ask Mr. Singleton to provide a broader background on this as to what is happening in other telephone companies across the country.

MR. CHAIRMAN: Mr. Singleton.

MR. J. SINGLETON: Thank you, Mr. Chairman.

Just in responding to your question, Mr. Scott, we've done a review of the accounting practices of other telephone companies across Canada and in each case all of the other telephone companies are in fact accounting for their pensions as they are earned and in only one or two instances have relatively small unfunded liabilities that they have a specific plan recommended by the actuary to close out over a relatively short period of time.

With respect to the plan that the Manitoba Telephone System is currently implementing, I think it would be useful for the system to distinguish between the issue of funding the pension plan and the issue of accounting for the pension plan and the two do not necessarily need to be tied together. The recommendations that the Institute of Chartered Accountants will be producing will deal primarily with the issue of how to account for the liability. An accounting for the cost on a current basis, as Mr. Jackson has pointed out, is important information for rate-setting organizations because those are additional costs that need to be covered by current subscribers.

The issue of how to fund the unfunded pension liability is, I think, a little more complex. The plan that you've described is not an unreasonable one for the Telephone System to follow, but it may be useful for them to seek the assistance of an actuary to advise them on the appropriateness of that approach.

MR. CHAIRMAN: Page 8 - Mr. Scott.

MR. D. SCOTT: I have a question on that. I guess, just picking the telephone industry itself, in most of the

country there are only three other Crown corporations operating telephone companies or four, including EdTel, but how does it compare to other provincial utilities that are owned across the country, as well as what is the reaction of the other provinces and the other Provincial Auditors towards the accounting for pension liability? Because it's my understanding that there is only one other province, Ontario, that is funded. All the other provinces are unfunded.

And I'm wondering what the response is across the country because this is something that doesn't - as I said earlier - it's not something that affects our government alone, in isolation of all the past governments of the Province of Manitoba, the same as it doesn't isolate the Province of Manitoba any differently than the Government of Canada or other provinces across the country with the potential exception of Ontario.

And I am wondering what the response is to the overall public pension issue from other Provincial Auditors and the recommendations that they are making and if there are any initiatives in other provinces to move on this parallel with the CICA, or are any other provinces even ahead of where we stand today?

MR. F. JACKSON: Mr. Chairman, Mr. Scott is quite right. It seems that only Ontario is in the preferred position.

But the concern that's being expressed isn't just coming from legislative auditors. It's coming from senior officials in the Departments of Finance and from people in the universities, as well as others. There is this recognition that this is in an area where the bottom line doesn't fully reflect the results of operations in any one year, and it seems to be about the most significant aspect of operations that isn't being properly recorded in the accounts, and the concern is pretty well universal.

It is an area that has been of some concern to the accounting profession for a number of years. And the task force that has been referred to earlier, PSAAC, on the pension side of things, it's not just accountants getting together and trying to solve the problems; but they formed a joint task force composed of six members of the Institute of Chartered Accountants of Canada, as well as six members, six actuaries representing the Canadian Actuarial Association, because it was recognized earlier on that these two professional bodies interact very closely in the financial statement and results of operations for pension funds, corporations and others.

So it was thought to be essential that there be a meeting of the minds between the actuaries and the accounting profession before there could be a meaningful public exposure, and that's what's happened. And it's one of the things that I think Canadians generally can be pleased with, where they can see two professional bodies seeing a mutual concern and working together on a very timely basis to resolve it.

MR. CHAIRMAN: Mr. Connery.

MR. E. CONNERY: Mr. Chairman, in two areas in the report I see where the Auditor has indicated a concern for unrecorded and unfunded liabilities that are being

passed on to future generations - and of course this is one of my big concerns, the liability of the debt of the government - but we also have the unfunded liabilities and unrecorded liabilities that are going to be passed on to future generations.

Does the Auditor have a total global figure of the total unrecorded, unfunded liabilities that we have, both for the government and for the Crown corporations and so forth? We note a total figure that doesn't show up really in the deficit of the government.

MR. F. JACKSON: Well, Mr. Chairman, unfortunately that's not the position that we're in at this point in time, in that there is no one figure that I could present as being the total situation.

But what we have attempted to highlight in this year's report are the very significant components of what would make up such a figure, and those are in our report.

MR. C. MANNES: Mr. Chairman, I wasn't planning to ask questions with respect to the pension unfunded liability at this time, but I think I should.

Mr. Jackson, you made the statement that in 1978 roughly 1.2 percent of all salaries, of the total salary package, that share of it, 1.2 percent should be devoted to pensions. Today you're saying that number is 7.2 percent by the year 2002, basis the estimates, the forecast.

MR. F. JACKSON: Mr. Chairman, just to help clarify what I did say was, I said in 1978, as a result of an actuarial study, it was determined that 1.5 payments were being made as a result of the means of financing pension plans.

To put that into perspective, what that really means is that the government had adopted a pay-as-you-go means of paying for pension plans. What that really means is that no payments are made by the government until an individual retires. What that really means is that for those people who had retired it was now required, that as a percentage of the salary costs being paid out by government, pensions were a 1.5 factor, in addition to salaries. By the year 2002 that would jump up to be the 7.2 figure. That's a 4.8-fold increase and that worries us.

MR. C. MANNES: Mr. Chairman, I'm going to put some hypothetical figures to that, and of course they can be disputed.

But if in the year 2002, for instance, the budget of the Province of Manitoba calls for expenditures of \$10 billion, and \$6 billion of that is a wage component, then roughly \$430 million will have to be found by legislators in that year in support of pension benefits earned by retirees to that point in time. Those are all hypothetical figures, but that's basically what we're saying.

MR. F. JACKSON: On the surface, that would seem to be correct, and that would compare to that much lesser figure if it was sitting at 1.5 percent.

MR. C. MANNES: The 1.5 to the 7.2 - that represents a significant increase. How much of that is attributable

to the two major pension reform bills that this government has brought in over the last five years?

I think specifically of the major pension reform bill introduced by the former Minister of Labour in 1983, and secondly the teachers' retirement package for early retirement that was introduced, I believe, in 1985. Those two - is there any indication as to the increase from the 1.5 to the 7.2?

What percent of that increase is attributable to those two pension reforms?

MR. F. JACKSON: Mr. Chairman, it's my understanding that neither of those revisions contributed anything to this significant increase because those two revisions took place after the earlier actuarial projection had been done.

What we've since advocated was that there be a further study to see what the effect of those revisions would be on these type of projections. My indication was that the 7.2 could increase.

MR. C. MANNES: Yes, that obviously begs the question - that 7.2 then is quite obviously an outdated figure.

Who today in government is working on that percentage? Do we have an update? Do we have a forecast as to what that figure would be today, what that figure might be 10 years from now, extended to the year not 2002 but to the year 2012? Has there been any work done within that area? Are there any numbers that can be provided at this time?

MR. CHAIRMAN: Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, we are in fact having an actuarial evaluation being undertaken with respect to the funding options of the funds.

MR. C. MANNES: When will that study be done and will it be made public - can I ask the Minister?

HON. E. KOSTYRA: I don't know what the timetable is for that. I'll find out and refer back to the committee.

MR. C. MANNES: When the Minister says he'll report back to committee, he's saying in the next sitting?

HON. E. KOSTYRA: We hope to be able to get that by the next sitting.

MR. CHAIRMAN: Page . . . yes, Mr. Kostyra.

HON. E. KOSTYRA: I'd just like to provide some additional information for committee members on this issue because I know that members of the Opposition particularly have expressed concerns about this area, more so at the time of the releasing of the Public Auditor's Report than today, criticizing this government for lack of action on this area. I think there is additional information the committee members should be aware of as to how this issue has evolved and how it is being dealt with by governments right across Canada.

First of all, the point in time that this started to occur was as a result of a change that was made, I believe, in 1961 by a then-Conservative government. My

memory doesn't go as long back as yours, Mr. Chairman, but I think that is correct. It is a problem that has existed, not only for the Province of Manitoba, but indeed all provinces in Canada with the exception of Ontario.

There are some variances between provinces with respect to how many of their Crown corporations are covered or how many are not covered, but I think it's instructive to look at the magnitude of the unfunded liabilities as they exist across Canada because Manitoba, one, is not unique and, two, Manitoba is not at the high end of the liabilities that exist with respect to other provinces. They range from a high of \$13.9 billion in Quebec to \$5.4 billion in Alberta, \$2.9 billion in British Columbia, \$2 billion in Saskatchewan, \$1.3 billion in Newfoundland, \$1.2 billion in New Brunswick, and then Manitoba is at the level of \$1.1 billion.

The other point I make is that we have been providing, as a note to Public Accounts, the unfunded liability - and it's noted in Public Accounts, Volume 1, on page 1-18, point no. 8 - where we include the amounts in Public Accounts as a note to the accounts. I know the Provincial Auditor disagrees with that and feels it should be consolidated, but that's in a manner similar to other governments in Canada. In fact, one of the other governments that's in the same situation believes that is the correct way of doing it.

I happen to have a copy of the Alberta Public Auditor's Report and, in that, he is raising the same concern to the Government of Alberta, the Conservative Government in Alberta. "In response" - and I'm quoting now - "in response to the Auditor General's 1984-85 recommendation that the provincial pension obligations be recorded as a liability, the Provincial Treasurer stated that the financial statement disclosure of unfunded pension obligations recommended by the Auditor is not the general practice in Canada. He also states that the government" - the Alberta Government - "considers that its current practice of disposing of pension liability by way of a footnote to the financial statements is appropriate." That is the same method that we have been employing here in the Province of Manitoba.

It is certainly our intention to work with other governments and work through the national committee that is looking at this through the Canadian Institute of Chartered Accountants, the Public Sector Committee, to see how collectively we can deal with this issue in the future, but to somehow suggest that this is the result of some mismanagement by the present government does damage to reality. It does damage to how this thing evolved and certainly, as I pointed out, when you look at how other governments, most of which happen to be Conservative Provincial Governments, are dealing with this issue, it is not dissimilar from the manner that this government is dealing with this issue.

MR. C. MANNES: Mr. Chairman, I make no apology for other Provincial Conservative Governments and neither do I take solace, like the Minister seems to, from the fact that there are some provinces that seem to be worse off than we are in this regard. The Minister likes to draw note that this process or this procedure began in 1961, words that have been whispered across the table here just recently, and I'm cognizant of that,

Mr. Chairman. But the point being, let's remember that the years of the Sixties, the decade of the Sixties, did not have a great deal of inflation associated with it. Inflation within the nation and within the western world began in a major sense in the early Seventies. Governments of the Day, whatever their stripe across Canada - NDP specifically in Manitoba - saw fit to ignore a ticking time bomb. Today, we are confronted with a major, major issue such that senior finance people and indeed Provincial Auditors and indeed legislators who are very concerned about this - and I say that's a growing number - are saying we have to do something about it. If the government has finally come to the decision that we had better do a report on it and we better try and wrestle with it, fine, I support that. I look forward to the report coming down. Hopefully, it will be shared by us all.

Beyond that, I would hope that the Minister is prepared to take some meaningful action because, quite honestly, we are really doing a tremendous disservice to generations to come.

HON. E. KOSTYRA: The member makes the comment that the Minister is finally saying that the government is going to do something about it. My comments today, in terms of the report that's being done by the national committee and our response to review that, are the same comments that I made to this committee last year when we dealt with the same issue. The government is open to dealing with it. We are awaiting the work that's being done at that level and intend to consult with other Provincial Governments in Canada in terms of how we may respond and deal with that report. But just let the record be clear, that's the same response that I gave to this committee when it last met.

MR. C. MANNES: Mr. Chairman, that's my point exactly. It's the same response. I don't know if we've moved any further along in the process of trying to find a solution. Yes, the response is the same.

MR. E. CONNERY: To the Auditor, Mr. Chairman.

The \$815 million of unrecorded liability now for pension plans, is that taking into account the changes to the two pension plans mentioned or is that with the old outdated figures?

MR. F. JACKSON: Mr. Chairman, I would ask Mr. Singleton to respond to that question.

MR. J. SINGLETON: Mr. Chairperson, that takes into account the most current figures, using the actuarial estimate of the unfunded liability. So I'm not sure exactly when that actuarial update is done, but it's done every three years so it couldn't be more than three years.

MR. E. CONNERY: So, Mr. Chairman, what Mr. Singleton is saying, he's not sure if this \$815 million includes the changes to the pension plan.

MR. J. SINGLETON: It would include all the changes up to at least three years ago. In each case, an actuarial evaluation is done on a different three-year cycle, and I don't think it's the same for the province as it is for the Teachers' Retirement Fund or the Manitoba Liquor

Commission. So changes that have taken place within the last three years would not be reflected necessarily in that.

The other point that I should make is that it's an accounting estimate that we've made, based on the liabilities in the Teachers' Retirement Fund and the Manitoba Liquor Commission. If an actuary were to do a detailed study of exactly what the employer's liability was, it could likely come out to be a somewhat higher or somewhat lower number than our estimate.

MR. CHAIRMAN: Page 8—pass; page 9—pass; page 10—pass.

Page 11 - Mr. Manness.

MR. C. MANNES: Mr. Chairman, the second-last paragraph, this comment is made, and it's an accounting change with respect to a \$50 million item within the Department of Education. I've never quite understood what this is for. Maybe the Auditor could take just a minute or two to explain. Is it a future-year liability that the government has finally funded in the present year, at least accounted for in the present year under consideration?

MR. F. JACKSON: Mr. Chairman, the most extensive explanation of this change is found on page 4-17 of Volume 1 of the Public Accounts, headed "NOTE 1."

Perhaps I could help with a summarization of this. What you are seeing here is, as a result of an audit recommendation, the Department of Finance moving to respond to our audit observation to make the Public Schools Finance Board operations more similar to those of other Crown agencies which operate on an accrual basis and record, as a government expenditure, all of the costs that are being incurred by an entity, such as the Manitoba Health Services Commission on an accrual basis. So that at the end of March, for the Manitoba Health Services Commission, all the payments that haven't been made but all the health care costs that have been incurred are recorded as an operative expense of the Manitoba Health Services Commission to the best the people can determine them.

Well, we noted that was not the same as what was happening with the Public Schools Finance Board and, in fact, there were expenditures being incurred by the school divisions that were to be funded by the government eventually that weren't being reflected in the same time frame as the government fiscal year. We took exception to that because of the inconsistency, and this is a move to correct that.

HON. E. KOSTYRA: The final step in correcting that will be, when we conclude this fiscal year, we're going to have to have additional authority put in place to cover that \$35 million accrued liability. So once that is done then, as I understand it, this problem will be corrected totally. What it means is that the Special Warrant this year is increased or inflated by that amount.

MR. CHAIRMAN: Page 11—pass.

Page 12 - Mr. Manness.

MR. C. MANNES: Mr. Chairman, in essence - and this is an overview comment of the government's

Operating Fund Financial Assets and Liabilities - is the number at the very bottom, the \$1.19 billion, is that the degree to which our provincial indebtedness increased in just one year?

MR. F. JACKSON: Yes.

MR. C. MANNES: Mr. Chairman, I'd like to ask the Provincial Auditor where our provincial debt is headed, given the basis of pure compound interest theory, given the basis there seems to be no commitment of this government to meaningfully attack deficits and certainly accumulated debt. Where in the Auditor's view is this massive millstone around our necks, where is it headed?

MR. F. JACKSON: Mr. Chairman, I could only speculate in the way of an answer on that, and I don't think it would be fair for me to speculate in a matter that is so important to the future of this province.

So there are two things that I might refer you to, Mr. Manness, and that's our ongoing recommendation that the government provide to the members of the Legislature a five-year plan that would enable the members of the Legislature to better understand what any one year's budget and estimates mean in the totality of the future plans of the government.

But I might refer you to page 20 where we present a graph that deals with history rather than the future, and on that graph is the reported excess of liabilities over financial assets and there's a trend that shows up there. For one to really project beyond this chart, it would be speculation and that's one of the reasons that we think the five-year fiscal plan would be helpful to the Members of the Legislative Assembly of Manitoba.

MR. C. MANNES: Well, Mr. Chairman, I thank Mr. Jackson for his comments because I fully realized when I asked the question I couldn't expect a definitive answer. I thank the Auditor for the answer he did give and I will move into the area of the five-year plan a little bit later. But I will ask the same question of the Minister of Finance.

Mr. Chairman, where is the indebtedness of this province headed and to what degree is it going to constrain governments of the future from being able to provide services to the people and the taxpayers of this province? Does the Minister have any plan whatsoever to attack the massive debt which is strangling, I'm sure, his government now and indeed governments to come within this whole area?

Mr. Chairman, I plead with the Minister not to offer me a whole bunch of figures coming from other provinces. It just doesn't suit the exercise particularly well.

HON. E. KOSTYRA: The member not only wants to ask the question, he wants to dictate the manner that it's going to be answered, and I don't think that that's the way that this committee operates, Mr. Chairman, unless we're under some new rules of order. But let me answer it in an upfront and forthright manner.

The member says, well, don't look at any other province and don't bring any statistics. I think you have to put things into some kind of context and you have

o look at things in terms of our own experience here in the Province of Manitoba. We have to look at it in comparison to other similar institutions like a provincial government, and that means doing some comparisons at what is taking place with respect to other governments in Canada, and we can look at that from a number of vantage points.

We can look at it from the vantage point of the public sector and then how we view that. We can look at it from the vantage point as how others out there may look at it, such as rating agencies and other groups. But I don't agree with the basic premise behind the member's question that we're in such dire straits as he would point out and that there is no sense of direction in terms of how we're dealing with our debt or deficit situation.

First of all, and I know the member won't like this, but if you look at comparisons that are done - and he snickers - on one hand we hear the members of the Opposition continually talking about what happens in Conservative provinces, but when those same comparisons are done with respect to other matters they snicker and don't want it heard - in fact were attempting to suggest that I shouldn't even have the opportunity at this committee to put that on the public record.

But I think that those kind of comparisons are important not only for Manitobans to see in terms of how we stack up between other provinces, but for Manitobans to see how Conservatives, when in government, will deal with some of those same issues rather than how they talk out of one side of their mouth when they're in opposition in a particular province. So let's deal with some of that.

First of all, if you look at how the rating agencies view the debt and deficit situation, I would suggest to the member that he read the report that Standard and Poor's did on all Canadian provinces in Canada where they provide from their vantage point an analysis of debt and debt servicing levels across Canada. It's interesting to see how Manitoba stacks up under their form of reporting and reviewing. I don't necessarily agree with their approach or the factors that they place certain weight to, but that is one perspective that is used by people who use these agencies to make certain investment decisions, particularly in the United States. They indicate that Manitoba's debt burden position is about in the centre of Canadian governments and the same is true with respect to our net interest costs that were not at the high levels and the horrendous levels that the member suggests but were more in the mid range. In fact, the ones that are at the highest levels are governments that are not governed by New Democratic Party governments.

He also suggests that there is no improvement in the yearly deficit with respect to the Province of Manitoba and, again, there he's wrong. We have brought continued improvement year by year in the level of deficit, not in a way that other governments that he doesn't want to talk about do it, but in a way that's planned and orderly, not without its difficulties because controlling expenditures and the need for government services and the transfer payments that go out to the various other organizations that rely on public funds is not easy to control, but we have done it in a planned way that has brought about a year-by-year reduction

in the deficit and we'll continue to work on that path as we work toward this budget.

So I disagree totally with the position of the member opposite that there is no place at all that we have not brought about significant improvement. If he would take the time to look at some of the comparisons that he doesn't want to look at, then he would admit that his comments are not entirely correct.

MR. C. MANNES: Mr. Chairman, did Standard and Poor's have an opportunity to read the latest Public Accounts in the Provincial Auditor's Report where I'm led to believe that liabilities of almost \$600 million, particularly with respect to Manitoba Properties Incorporated, have not been accounted in a sufficiently open manner?

HON. E. KOSTYRA: Is that a comment or a question? What's the question?

MR. C. MANNES: Was Standard and Poor's aware as to whether or not all the liabilities of the province have been accounted to date in a proper fashion?

HON. E. KOSTYRA: First of all, I'll answer part of it and then my Deputy Minister can answer specifically if that's an area that they've looked at in particular, but I would draw the member's attention to page 116 of Public Accounts where it's spelled out. I know that Standard and Poor's, and indeed other rating agencies, receive and review copies of Public Accounts and it's all spelled out there, but specifically to the question whether or not they've asked or expressed a concern about this area, I'll ask Mr. Curtis to answer that.

MR. C. CURTIS: Mr. Chairman, we of course meet a number of times with the rating agencies on an annual basis and we have made available to them all of the background information with respect to MPI and we've given full access to all of the material that we've had in developing the accounts for MPI. They've had access to all of the audited statements, the Public Accounts, and we've satisfied any questions that they've had relative to it.

MR. C. MANNES: Mr. Chairman, then I would ask Mr. Kostyra whether or not next year then Public Accounts will reflect the selling of our assets, the selling of our public buildings, whether that will be reflected within the accounts proper instead of by way of footnote?

HON. E. KOSTYRA: At this point we don't have any intention to change the method of reporting. It's reported there as a footnote and the full information is provided.

MR. C. MANNES: Mr. Chairman, I won't belabour that point. I'm just saying that it would be obvious to me, if I were trying to determine the degree of soundness of any institution, government or otherwise, I would want to know to what degree that corporation or that government was selling off assets and I would have to think that would have some determination as to the final grade I gave to a province.

But, Mr. Chairman, more importantly than that is the fact that the government today, through the lips of the Minister of Finance, cannot give members of this committee, and indeed the Province of Manitoba, any indication whatsoever as to how we as a province are going otherwise, I would want to know to what degree that corporation or that government was selling off assets and I would have to think that would have some determination as to the final grade I gave to a province.

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But, Mr. Chairman, more importantly than that is the fact that the government today, through the lips of the Minister of Finance, cannot give members of this committee, and indeed the Province of Manitoba, any indication whatsoever as to how we as a province are going to meet our obligations associated with this increase of debt in generations to come.

The Minister today has given me nothing in a positive vein as to how we are going to meet our obligations that will come forward in years to come.

HON. E. KOSTYRA: In regard to the previous statement about the selling of assets, the assets have not been sold. We go around and around this issue, but the assets are still in the control of the people of Manitoba through the publicly controlled entity.

In response to the question why the - using his terms - sale of those assets aren't shown, all the other assets of the province unfortunately are not shown on the books of the province either; and that's an area that I have concern about in terms of knowing the value of those assets to the people of the province and to the government.

So the converse is also not true if one were to accept any validity to that question or that point. I don't believe that anything I could say, in fact, or anything that I could do would make the member feel satisfied - nor would he admit to feel satisfied - with the actions of this Minister of Finance in continuing to bring about a reduction in the deficit at rates that I think are significant, and have planned and have stated so publicly to continue on that path.

But I don't expect the Opposition critic to be complimenting me on any progress in that regard.

MR. CHAIRMAN: Page 12—pass.
Page 13 - Mr. Manness.

MR. C. MANNES: I would ask the Provincial Auditor, Mr. Chairman, our working capital continues to fall. Why is that?

MR. F. JACKSON: Mr. Chairman, the analysis that's provided on page 13 provides a year-over-year explanation of the decreases; and it's basically, if you look at the figures, due to the fact that our liabilities are increasing more than our assets are and that shows

up in amounts owing to the trust fund and the accounts payable accrued charges and funds subject to a call increasing at rates faster than the cash and equivalents and the other amounts receivable are increasing.

MR. CHAIRMAN: Page 13—pass; page 14—pass.
Page 15 - Mr. Manness.

MR. C. MANNES: Mr. Chairman, I want to compliment the Auditor on this short section. To me, it's well presented.

The Auditor uses the term "a challenge process" when he's talking about whether funds that the government loans to any of its agencies are truly self-sustaining or not. Could the Provincial Auditor further define the term "a challenge process"?

MR. F. JACKSON: Well, Mr. Chairman, that means to us that the Department of Finance has a role very similar to the credit department of a corporation, in that you have your sales staff that's out wanting to sell and they make money as a result of sales. But sometimes there's an opportunity to sell to people that don't have a good credit history or that you may never be able to recover from.

We think that's where the credit department in that same entity has a role to play; and maybe some of the potential sales or some of the potential programs might get rejected if in fact the credit department or agency on its analysis was not as optimistic about the thing succeeding.

MR. C. MANNES: Well, Mr. Chairman, this begs the question then: In the Provincial Auditor's view, has the government improperly been classifying loans as between truly self-sustaining and however else they may be classified? Has the Auditor, in his view, ascertained that the government, i.e., the Department of Finance, has not classified properly some of the loans to agencies?

MR. F. JACKSON: Mr. Chairman, what we're looking to here is the continuous review process. Once a program is undertaken or once an agency is in place, that there be an ongoing review process and challenge process, so if facts over time don't substantiate the optimism that was there initially, perhaps something should be changed from being self-sustaining to be a general debt of the province. That's really more the thrust of our observation.

MR. C. MANNES: Mr. Chairman, there's a litany of examples where loans and advances and/or investments in Crown corporations that were put on the books as being self-sustaining have not occurred. That situation has not occurred.

Has the government, on its own determination, ever changed the classification as between truly self-sustaining and otherwise as a result of experience? I ask the Provincial Auditor.

MR. F. JACKSON: I believe there have been some changes made over time when it's been recognized that an entity won't succeed and there has been a reclassification of debt. But perhaps the Deputy Minister of Finance would care to clarify that.

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MR. C. CURTIS: I guess to some extent, Mr. Chairman, we have tried to approach those sorts of issues where the amounts that have been advanced have become less likely to be recovered. We have made allowances, provisions for them from time to time. So we have attempted to identify those self-sustaining areas that perhaps are less self-sustaining than we had hoped.

HON. E. KOSTYRA: Yes, the final point in the changes that we've been making will appear in this year's Spending Estimates where we will be taking the final step in terms of dealing with any potential, unrealizable returns on loans or advances to Crown corporations and other entities fully on the expenditure books of the government so that there will be allocations set up in the new fiscal year covering losses which are not anticipated to be realized or losses that are occurring either on loan accounts or on advances to Crown corporations where there is no plan within the business plan of those organizations to recover. Those will be shown as an appropriation expenditure in this next fiscal year and it will be based on the actual experience of that particular agency or corporation in the preceding year which ends March 31 of this current year.

MR. C. MANNESS: Mr. Chairman, we'll move right into that in a moment, but I want to ask Mr. Jackson whether the process of classifying these loans is truly self-sustaining on the basis of whether or not two or three years down the road they've been able to meet their obligations of paying back, whether that's sufficient or whether the government should do a better job of determining, in the first instance, whether or not a loan will be paid back and therefore should be classified accordingly?

MR. F. JACKSON: Mr. Chairman, we're looking to, as an objective, an approach at the initial classification, but then we're also looking for the ongoing review as history unfolds.

We understand that the government has taken action in this regard. One of the things that it's attempting to do through its newly formed PIC corporation is to have an ongoing evaluation take place as to whether in fact it's time to reevaluate some of that debt and consider if it is still truly self-sustaining or whether there should be some reclassification.

MR. C. MANNESS: Mr. Chairman, let's move down into the area of the writedown, the value of loans.

Mr. Chairman, the Minister and the government have indicated that starting this budget, or the laying down of the Estimates this year, that they will reflect some share of Crown corporation losses from the year before.

First of all, is there any policy beyond that general statement? Is there a policy paper that the Minister can share with us at this time, giving us the specifics? I'm thinking of the Crown corporations that are, first of all, eligible; secondly, their fiscal year-ends and whether or not they fall into a certain reporting year or not, and I guess, specifically, what Crowns will have their losses reflected in this year's appropriations.

HON. E. KOSTYRA: Starting at the end of the question, the ones that will be reflected on the books are the

ones that had losses that there is no possibility within their business plan of those losses being recovered.

We're obviously not at the year-end yet and we don't have those fully defined. Obviously, there are projections and we're working on those. Some year-ends are December, other year-ends are March 31, but they will be reflected in the books of the Spending Estimates once they're tabled.

I guess the detail on how this is being treated is contained in the notes to Public Accounts, Volume 1, page 123, point no. (5). It goes on over to the following page.

MR. C. MANNESS: Mr. Chairman, I've read that comment and that note, but I still don't know which of the Crown corporations specifically are candidates to be included. I would ask the Minister.

For instance, Manfor has, I believe, an accumulated loss over the years of roughly \$120 million or \$130 million. The Minister responsible from time to time will tell us that it is a candidate for profitability. As a matter of fact, I believe on the net operations, once you factor out the interest associated with historical debt, that it probably is profitable.

Is that corporation deemed to be in a position where it can pay back its obligations and therefore its losses in the past and indeed in the future will not be reflected within the valuation allowance process; that is, captured or to be paid off in part through the appropriation?

HON. E. KOSTYRA: Just to explain, first of all, any of the past losses, some of which were accounted for through the valuation allowance, have been written down on prior years. Any additional losses that are incurred in the current year, over and above those that have been valued down, will be accounted for. Conversely, if there is a surplus situation or a profit situation, then there would be no requirement for funding in the current year. However, if in a subsequent year that situation were to change, then there would be an accounting. So it will be done on a year-by-year basis based on the previous year's experience.

MR. C. MANNESS: Mr. Chairman, I understand that, but I ask specifically the question: Manfor - is it a candidate to be included? I mean, if it has losses that come about in the next year or two, will they be reflected in the appropriation?

HON. E. KOSTYRA: Yes, any Crown entity, any agency that is in that situation, it will be reflected if there are losses. If there are no losses, then there will be no reflection of that in the subsequent year.

MR. C. MANNESS: The Minister says now "any Crown." Does that include hydro and telephone?

HON. E. KOSTYRA: If hydro and telephones were in a situation where they couldn't look after those losses within their business plan, then they would be, but that is not, certainly from our vantage point, the situation with those Crowns now or in the foreseeable future.

MR. C. MANNESS: Hopefully, that will continue to be the case, Mr. Chairman.

What other Crowns beside the Manitoba Telephone System and Manitoba Hydro are not, therefore, candidates at this point in time?

HON. E. KOSTYRA: Again I go back to the point I raised earlier and made in response to the previous question. That is that we are now in the process of doing that based on the year-ends of all of the Crown corporations and then making the decisions as to how much would need to be reflected in the next year. So I can't give a specific answer until we are in a position of finalizing all of those amounts.

MR. CHAIRMAN: Page 15—pass; page 16—pass.
Page 17 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, just one question, and I'm sure this is reflected in the account so far.

Can the Minister of Finance tell me what the total valuation allowance is; in other words, the total write-off of debt associated with all the Crown corporations over the year? What is that global figure as of March 31, 1987?

HON. E. KOSTYRA: You're talking about all of the period, not this last . . .

MR. C. MANNESS: No. All of them.

HON. E. KOSTYRA: We don't have that here. You're talking about taking all of the . . . we'd have to get that and table it. That would mean going back through all the Public Accounts, I guess.

MR. C. MANNESS: Mr. Chairman, page 16, for instance, indicates that in 1986, \$193 million was written off.

HON. E. KOSTYRA: No, that's not quite correct. There was a valuation allowance provided in 1986 for \$193 million. That did not necessarily mean that that amount was written off. That is, it won't show for '86, but '87 it shows on the statements. Page 118.9 describes the amount that's reflected in the statement, but that's the detail.

MR. C. MANNESS: Mr. Chairman, yes, I'll choose my words a little more carefully because certainly an evaluation allowance, of course, a part of that could come back if circumstances are right.

HON. E. KOSTYRA: As an example, the amount that's been set aside for the Beef Stabilization Fund, based on the experience this year, will be reduced as a result of better operations.

MR. C. MANNESS: Mr. Chairman, then I'd ask the Minister to bring back two figures: firstly, the valuation allowance totals to this point in time. Over the last 25 years it had been put into that allowance.

Well, Mr. Chairman . . .

HON. E. KOSTYRA: Well, we'll do it. There's no . . .

MR. C. MANNESS: That's not an onerous task. I don't believe that that's an onerous task.

HON. E. KOSTYRA: We'll do it.

MR. C. MANNESS: And secondly, the final write-offs associated with that. I think it would provide an interesting figure.

MR. CHAIRMAN: Page 17 . . .

HON. E. KOSTYRA: I'll note that and bring it back.

MR. C. MANNESS: Pass.

MR. CHAIRMAN: Page 17—pass.
Page 18—pass - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, one second here. Pass.

MR. CHAIRMAN: Pass.
Page 19 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, this is the excess of liabilities over financial assets. Those of us who are not accountants would want to call that the provincial deficit for the year, and of course we won't go into the long debate that we did last year as to whether that word "deficit" has a place in here or not. The Auditor would say it doesn't and I know the Minister of Finance would say it doesn't.

But, Mr. Chairman, for the second year in a row we've had a situation whereby the provincial deficit, our provincial excess of liabilities over financial assets, balance at the end of year, has increased by an amount significantly higher than the government's own accounting would provide.

I ask the Auditor whether this is a serious matter or whether it's one just attributable to a difference in views as to the method in which valuation allowances should come forward. Does he take any concern from the fact that his number is so much higher than that presented by the Provincial Government?

MR. F. JACKSON: Mr. Chairman, it's more usual that the Auditor can be in a position so that he doesn't have to have a qualification in his Audit Certificate on a set of financial statements. There's been some changes that the government made in the past year so that we were able to reduce our number of qualifications on the financial statements, but were left still having to qualify. One of the reasons that we're qualifying - it's the significant reason in the past two years - is that we sincerely believe that the operating results of the Crown agencies, where they have incurred losses, really need to be reflected into the operating statements of the government.

They're doing that but they're doing it below the line, so that the net liabilities over financial assets is reflecting the right answer, but it isn't given the kind of prominence that we think it should be and that's why we continue to qualify. The figures are significantly different in excess of 10 percent of the operating results year over year, so we are concerned about that. But once the change that the government is planning on making for '79 (sic) is in place, we feel that the operating results will be more realistic in that the programs undertaken by the

Crown agencies will be reflected more in the same way as departmental programs, so that the operating results will be incorporated into the financial statements of the government and we think that's a step forward.

MR. C. MANNES: On that same point, Mr. Chairman. In looking at this table, I can't help but know that there is not an entry for the unrealized foreign currency losses for the year ending March 31, 1987. Now I know, beginning in that year, the Department of Finance has built in a component of those losses into the appropriations. Has there been a significant or a large enough share of those unrealized foreign currency losses built into the appropriation, such that there is no entry at all shown as compared to the year previous when that figure was \$256 million by your assessment or released by somebody's assessment?

MR. F. JACKSON: Mr. Chairman, there is a figure that's built into the operating results of the province into the financial debt side of operations that's shown in the Department of Finance appropriations and it is a larger figure in the past year than it was previously. What we're all faced with is whether or not the current accounting policy and approach adopted by government is as realistic as it might be, given the ongoing deterioration over the last number of years in the Canadian currency evaluation as opposed to foreign currencies.

When this project was undertaken, there were several options available as to the accounting policy that could be adopted, and it was recognized by all that the foreign currency loss wouldn't be a meaningful figure or as meaningful as it might be if you only used one point in time, i.e., March 31 for your evaluation purposes. We were quite prepared to consider a longer term evaluation than the one date in time and what was opted for by the government was a three-year span, i.e., what the foreign currency range was at the end of the past year plus the two previous years.

Now normally speaking, if there are some ups and downs, that has a good averaging effect and it was thought that that would be a reasonable approach. With the continuing decline in the Canadian dollar versus certain of the foreign currencies, it doesn't seem to be as practical approach with hindsight as it might be. We would think that that may be given some further consideration so that there be a more current reflection of what the overall trend has been for the last several years.

MR. C. MANNES: Mr. Chairman, given that determination, is that reflected in the numbers that are presented here or is the Auditor indicating that that will be reflected in the next report and reports to come?

MR. F. JACKSON: What's reflected in the current financial statements is in fact the policy that was being put in place, I believe, about two years ago. What hasn't changed and what might be given further consideration is whether or not that policy - whereas we value the foreign currency on the basis of the average for the prior three years - is as realistic as it might be. My understanding, in recent discussions with Department of Finance officials, that sometimes it is giving them

a more optimistic number than what they would like themselves. So I think that's a matter that should be given further consideration.

MR. C. MANNES: One small question then. Instead of averaging over three years, would then the net result of the comments you just made be to average it over a shorter period of time?

MR. F. JACKSON: Yes, my own preference would be to average it over a shorter period of time, and you might take several dates, i.e., quarterly answers in the past fiscal year as opposed to the two prior years as well.

MR. C. MANNES: Before we pass this page, I would say then to Mr. Jackson, am I right in saying that the true deficit, to use my terms - to use your term, the excess of liabilities over financial assets - is \$665.8 million, basis March 31, 1987?

MR. F. JACKSON: Excuse me, Mr. Chairman. Where is that figure coming from?

MR. C. MANNES: I'm on page 19. That's right. I'm wrong on that, I'm sorry.

MR. F. JACKSON: No, that's not the appropriate deficit.

MR. CHAIRMAN: Page 19—pass; page 20—pass; page 21—pass.
Page 22 - Mr. Mannes.

MR. C. MANNES: Mr. Chairman, does the Auditor have any recommendation or any comment with respect to the currency of borrowings? For some period of time now, there have been those of us in the Opposition who have been very concerned as to the percentage of borrowings offshore and, of course, that's reflected in an incredible liability position. Does the Auditor have any comment to make with respect to the decision by this government over the last number of years to borrow such a large portion of its funds offshore?

MR. F. JACKSON: Mr. Chairman, one of the things that we're faced with when we go into foreign currency borrowing is a reading of the financial markets, not only by senior officials in Finance who have considerable experience in this field but they consult with outside experts who are generally considered to be about the best in Canada. As a result of that consultation, there has been an approach arrived at as to what would seem to be a reasonable approach, given the option of getting apparently lower interest costs by going offshore, as opposed to the risk or downside of potential market devaluations in those currencies.

Up until about two years ago, or possibly three, there was always a favourable history as to whether or not it had been in the province's best interest to take those lower interest rates, as opposed to the downside position with the higher costs overall as a result of foreign currency devaluations. That has changed recently and my understanding is that, in order to minimize its risk in this area into the future, the government recently has also changed with the idea

of incurring significantly more of its debt now, and into the future in securities with less risk. Less risk, to me, is the American market and our own Canadian market.

But I also understand, from some readings that I've been doing, that there were times in the past where it didn't seem possible to borrow, at the extent one needed to borrow, strictly in Canadian currencies.

MR. C. MANNESS: Mr. Chairman, that comment, I guess, brings up a number of points. I guess that the basic underlying assumption in Mr. Jackson's last comment is that this Provincial Government needed to borrow money. I mean, it was almost a given that it had to borrow. It deemed that its mandate from the people was that it go out and borrow money.

But, Mr. Chairman, those of us in Opposition for a number of years have beseeched this government not to borrow offshore. In spite of the so-called experts, both within the Department of Finance and within the market at large, we saw incredible risk associated with borrowing in these currencies. What is happening today, Mr. Chairman, is that not only have we been vindicated in our views, in my view, but we are trapped into a situation where world currencies are trading so quickly that just the mention of a U.S. trade deficit figure can have an impact on currencies that can mean to Manitoba virtually tens of millions of dollars loss or gain. We are in a currency crap shoot, Mr. Chairman, and we're hanging there as a province. Right today, we have no protection.

As a matter of fact as the article said yesterday in the Free Press, we're vulnerable today by today's calculations in foreign exchange losses in the realm of \$1.5 billion. The Finance Department officials can say that is a paper loss at this point in time, and it is. I full recognize that. But, Mr. Chairman, much of that debt is due within the next handful of years. Yet today, we still have in the marketplace a situation where one figure, as released from the United States, can have massive impact as to whether or not additional beds will close in the Province of Manitoba.

I asked the Auditor, Mr. Chairman, for a more general comment as to why the province would be allowed, I guess, to venture into these borrowings without more of a critical comment from all quarters, other than just the Opposition. I think the message has to be told, the story has to be told as to why it is today we are cutting back services to Manitobans. I would hope that the Minister might see fit to comment.

HON. E. KOSTYRA: Are you asking the Provincial Auditor or are you asking me now?

MR. C. MANNESS: Both of you can comment.

MR. CHAIRMAN: Mr. Jackson, would you take the first shot at it.

MR. F. JACKSON: Mr. Chairman, in relation to one of my earlier comments, I was relating to the fact that the government was borrowing, not whether it had to borrow or not. I approached this from an administrative point of view as opposed to a policy side of things. When I was relating to the fact that they were borrowing, they actually were in the market and were borrowing.

I think one of things that has happened is our world has been shrinking almost unimaginably in comparison to what the situation was even five years ago. One of the things that we mentioned earlier in our discussion was computer technology. One of the things that we're seeing is, through improved communication that seems to work to our advantage sometimes and to our disadvantage other times, within a flick of a few buttons, billions of dollars can move from one country to the other. There are so many market forces at work out there, sometimes one would wonder if they're not there just to ruin the Canadian dollar or the American dollar, but there are speculative forces out there and all of those things work to our advantage or disadvantage as the case may be.

Even if we're dealing just in Canadian currency, we're still at risk because we're at risk in regard to the devaluation of our Canadian currency in regard to other world currencies anyhow, and we've all seen that. We think that there is some basic plus from a trade perspective. If in fact our Canadian dollar is devalued to a certain point, then we can market our products to greater advantage in other world markets. So there are times when we look to a disadvantaged Canadian dollar from a marketing position.

There are other times when we looked with disfavour on that situation when it comes time for us as a country to repay our debt in another currency. So there are pluses and minuses to this whole situation, but we certainly are more at risk if we're tied extensively to other foreign currencies for debt.

MR. C. MANNESS: Mr. Jackson, would you agree with me, we're also much more at risk when we have a much greater debt load than other jurisdictions?

MR. F. JACKSON: If we in fact do have a greater debt load than other jurisdictions and a significant part of that debt load is in foreign currencies, then we're at risk.

HON. E. KOSTYRA: Again the member makes the impression or tries to leave the impression that Manitoba has a debt load that is much higher than other jurisdictions of Canada, and I would - well, we hear some chirping from the far corner there. But, if you look at, not my analysis, not the Winnipeg Free Press analysis, but look at what the rating agencies, some within the business investment community put a lot of credence to, look what they have to say and how they rate the various provinces. Again, I would ask you to look at the report that they made on all Canadian provinces on September 14, and read it.

MR. C. MANNESS: Mr. Chairman, I'm not going to get into a debate with the Minister with respect to what various agencies and what various political commentators are doing in comparing one province to another. I only know that today the Province of Manitoba directs \$500 million in support of servicing the public debt, roughly \$500 million, roughly 12 percent of all the expenditures; yet within the Province of Manitoba, we have beds that are closing in hospitals, we have a highway system that is going to pieces quickly, and we have many other needs and wants and services

of our citizenry that are not being fulfilled. That's the way I look at the situation. If the Minister takes comfort from where we stack up as compared to other provinces, so be it.

HON. E. KOSTYRA: Don't make the comment that Manitoba has the highest debt or the highest debt-servicing costs in all of Canada. It's not true.

MR. CHAIRMAN: Page 22—pass; page 23—pass.
I might ask the committee if it's their wish to sit until 12:30 p.m. We're reconvening at 2:00 p.m. Is it your wish to sit through until 12:30 p.m. and come back at 2:00 p.m. or do you wish to adjourn at 12:00 p.m.?

A MEMBER: 12:15.

MR. CHAIRMAN: 12:15? Agreed? Compromise.
Page 24—pass; page 25—pass; page 26—pass.
Page 27 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, halfway down the page we have the item "Total Outstanding Borrowing Authority." Mr. Chairman, the various agencies of government and indeed the government itself have borrowing authority, as of March 31, 1987, of \$2.8 billion.

Can the Minister of Finance tell me today, as we move along of being three-quarters of the way through this fiscal year, how much of that roughly \$2.8 billion has been used over the last nine months?

HON. E. KOSTYRA: It would take a minute. Do you want to move on?

MR. CHAIRMAN: Page 27 - we can come back to it if we have to.
Page 28—pass.
Page 29 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, under the heading, "Commitments - Housing," Mr. Jackson previously indicated that he is laying out in this report some of the real indebtedness associated with various agencies of government.

First let me say for the record, Mr. Chairman, I fully recognize that the Auditor in this report has gone to great - I don't know if it was great difficulty, but certainly has gone to great efforts to provide a much expanded explanation on a number of these items and I recognize that and I congratulate him for doing so because I found it most valuable, the greater explanation of points and issues. I found the whole report much easier to read and I commend him for that.

Mr. Chairman, specifically under Housing, right today if I read this, "The Manitoba Housing and Renewal Corporation has total indebtedness of roughly \$231 million." Does the Provincial Auditor have any indication from the Provincial Government as to whether or not this number is going to stay relatively static or whether it's going to continue to grow at almost an exponential rate over the years to come?

MR. F. JACKSON: Mr. Chairman, this again is an area that we would find the five-year projection to be helpful

both to ourselves and to the members of this committee and the House as a whole, so unfortunately I will have to say, no, I don't have the information that would cause me to provide the answer.

HON. E. KOSTYRA: Just on that point, I believe that figure has been relatively static or the same for the last couple of years, so we can go on past history I guess.

MR. C. MANNESS: Mr. Chairman, a member sitting to my left here said something about assets and obviously there is an asset base that goes along with this indebtedness.

Can the Auditor tell me whether or not, in his view, that asset base has an evaluation which is staying constant or is it depreciating over time?

MR. F. JACKSON: Mr. Chairman, I'd ask Mr. Singleton to respond to that question.

MR. J. SINGLETON: Mr. Chairperson, the Manitoba Housing and Renewal Corporation is another corporation to which the province has advanced substantial sums of money over time.

We would conclude that it would be appropriate for that to be included in the Crown agencies that the Department of Finance is doing a review and evaluation of to determine whether in fact there is an appropriate business case for these funds to be repaid from the assets of a corporation, or whether in fact public funds might be required.

MR. C. MANNESS: Mr. Chairman, this then causes me to ask this next question.

Conceivably, the revenue shortfall associated with the Manitoba Housing and Renewal Corporation, could it be reflected in part on the appropriations in years to come?

MR. F. JACKSON: Mr. Chairman, it is already, in that there is an appropriation in the Department of Housing that is for subsidization of the Housing programs in both the department and in the Manitoba Housing and Renewal Corporation.

MR. C. MANNESS: It is a subsidization of rent. I understand that, Mr. Chairman. What about the depreciation of assets leading to some evaluation allowance? Will that be reflected?

MR. F. JACKSON: Yes. There is a depreciation factor that's taken into consideration which recognizes that once the house has started to be occupied and used, that over time that physical plant is depreciated and that depreciation factor is recognized in the accounts of the corporation.

MR. CHAIRMAN: Mr. Kostyra has the answer we were asking for, on page 27.

HON. E. KOSTYRA: Back on page 27. These are just rough numbers so they'll be out by a few dollars, but the amounts outstanding at the end of March 31, as Mr. Manness pointed out, was \$2.7 billion that has been

. . . Well, first of all you have to add on to that what we voted in the current year, which was approximately \$1.3 billion. Of that, \$1 billion approximately has been drawn down, so that would leave a net number of \$3 billion, approximately.

MR. C. MANNES: Mr. Chairman, I beg to differ with what the Minister of Finance said. I thought we passed Loan Authority for roughly \$1.8 billion, the last sitting of the House, because it came in at 1.55, if the Minister remembers; and then there was a Supplementary Loan Bill that was to include the purchase of the gas company. So that new . . .

HON. E. KOSTYRA: We'll just get the information in a second.

MR. C. CURTIS: Mr. Chairman, that amount of roughly 1.4 includes an amount that was provided for the possible gas company.

MR. C. MANNES: Well, Mr. Chairman, I guess it's the word "net" that has me confused, because certainly I can remember the loan figure that came before the House was 1.55 and then it was upgraded to a larger number, so I'm somewhat confused.

MR. C. CURTIS: I'm not certain what figures Mr. Mannes is referring to. The amounts that are voted, the amounts that were referring to the 1.4, are those additional requirements that were provided for in the last Session. One good example, for example, is Manitoba Hydro, where all of the Limestone authority had already been voted in prior years, so that would form part of their cash requirements that would take place during the year.

MR. C. MANNES: Mr. Chairman, I may be confused with the total Capital expenditure of government, which is . . .

HON. E. KOSTYRA: But not with a non-budgetary capital program as against the Loan Authority, because the non-budgetary, at over \$1 billion as presented in the Budget, was increased by the amount of money for the potential gas company purchase, and there may have been some other adjustments during the year - I don't recall - but the net Loan Act was considerably lower than that because an example in that net budgetary capital program, there was close to \$400 million for Hydro which had been previously voted, relating to Limestone, and there were some others.

MR. C. MANNES: Mr. Chairman, I apologize, yes. It now comes to mind better than it was, the non-budgetary aspect I was looking at.

MR. CHAIRMAN: Fair enough.

MR. C. MANNES: But, Mr. Chairman, what was the final net as of today, or roughly what is the standing of outstanding borrowing authority? My reason for asking is . . .

MR. CHAIRMAN: For the unused portion of the borrowing authority?

HON. E. KOSTYRA: Well, at December 31, the last cut-off point that we had, it was approximately \$3 billion. So the point is that - I know what the member is driving at - the unused authority has increased slightly.

MR. C. MANNES: Well, Mr. Chairman, more than slightly. If the government doesn't use \$1.3 billion over - well, yes, if the government doesn't use \$200 or \$300 million over the next three months, then obviously it will be a number increasing again. As you can see by the records, it increased fully \$1 billion from 1986 to 1987.

I would ask the Minister of Finance why this outstanding borrowing authority is increasing to a point where now it's between \$2.5 and \$3 billion. What are the purposes of having that on the books unused?

HON. E. KOSTYRA: Well, there are a variety of reasons. Some of that is unused but there are purposes intended for those expenditures, and the largest amount of that outstanding as of December 31, 1987, relates to potential requirements for Limestone of \$1.4 million. There is other unused authority going - I could take you through the whole list - but that's the major item. There are others that obviously have programs that they intend to spend those funds, if not within the next few months, then moving into the next fiscal year.

However, there are other areas as we've discussed here before that the authority isn't specifically allocated.

MR. C. MANNES: Mr. Chairman, on that one point, just a single question.

The funds that are earmarked for Manitoba Hydro, are they specifically earmarked for Limestone, or could Manitoba Hydro use whatever funds that have been accumulating for the years and directed to any other project without coming to the Legislature for authority to do so?

MR. C. CURTIS: Mr. Chairman, the amount that's reflected is the total funding for requirements for Hydro. Of course the largest part by far is with respect to Limestone and it was voted under the authority of Hydro for Limestone purposes.

HON. E. KOSTYRA: The answer is yes.

MR. C. MANNES: Mr. Chairman, the reason I am somewhat suspicious is that I detect there is a growing amount of unused Loan Authority building up under a number of agencies, not only Manitoba Hydro but other - and I'm thinking of, for instance, the Manitoba Agricultural Credit Corporation. My concern is that the government over time will have built up enough authority possibly under Manitoba Hydro that they could conceivably begin construction of another plant like Conawapa, in its very early phases, without coming to the Legislature and seeking authority to do so.

Could such a thing happen?

HON. E. KOSTYRA: Practically it can't, because the kind of authority you're talking about that would be available at the end of Limestone, as compared to the costs of developing Conawapa, just would not fit.

MR. C. MANNES: I'm glad to hear that, Mr. Chairman.

Tuesday, 26 January, 1988

Thank you.

MR. CHAIRMAN: Committee break and we convene at two o'clock.

MR. CHAIRMAN: Page 28—pass; page 29.

MR. C. MANNES: Two o'clock.

We've now reached 12:15. What is the wish of the committee?

MR. CHAIRMAN: 2:00 p.m.
Committee rise.

MR. C. MANNES: Break, Mr. Chairman.

COMMITTEE ROSE AT: 12:15 p.m.