



**First Session — Thirty-Fourth Legislature**  
of the  
**Legislative Assembly of Manitoba**

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**STANDING COMMITTEE**

on

**PUBLIC ACCOUNTS**

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37 Elizabeth II

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*Chairman*  
*Mr. Herold Driedger*  
*Constituency of Niakwa*



**VOL. XXXVII No. 2 - 7 p.m., THURSDAY, JANUARY 26, 1989.**

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Fourth Legislature**

**Members, Constituencies and Political Affiliation**

NAME	CONSTITUENCY	PARTY
<b>ALCOCK, Reg</b>	Osborne	LIBERAL
<b>ANGUS, John</b>	St. Norbert	LIBERAL
<b>ASHTON, Steve</b>	Thompson	NDP
<b>BURRELL, Parker</b>	Swan River	PC
<b>CARR, James</b>	Fort Rouge	LIBERAL
<b>CARSTAIRS, Sharon</b>	River Heights	LIBERAL
<b>CHARLES, Gwen</b>	Selkirk	LIBERAL
<b>CHEEMA, Gulzar</b>	Kildonan	LIBERAL
<b>CHORNOPYSKI, William</b>	Burrows	LIBERAL
<b>CONNERY, Edward Hon.</b>	Portage la Prairie	PC
<b>COWAN, Jay</b>	Churchill	NDP
<b>CUMMINGS, Glen, Hon.</b>	Ste. Rose du Lac	PC
<b>DERKACH, Leonard, Hon.</b>	Roblin-Russell	PC
<b>DOER, Gary</b>	Concordia	NDP
<b>DOWNEY, James Hon.</b>	Arthur	PC
<b>DRIEDGER, Albert, Hon.</b>	Emerson	PC
<b>DRIEDGER, Herold, L.</b>	Niakwa	LIBERAL
<b>DUCHARME, Gerald, Hon.</b>	Riel	PC
<b>EDWARDS, Paul</b>	St. James	LIBERAL
<b>ENNS, Harry</b>	Lakeside	PC
<b>ERNST, Jim, Hon.</b>	Charleswood	PC
<b>EVANS, Laurie</b>	Fort Garry	LIBERAL
<b>EVANS, Leonard</b>	Brandon East	NDP
<b>FILMON, Gary, Hon.</b>	Tuxedo	PC
<b>FINDLAY, Glen Hon.</b>	Virden	PC
<b>GAUDRY, Neil</b>	St. Boniface	LIBERAL
<b>GILLESHAMMER, Harold</b>	Minnedosa	PC
<b>GRAY, Avis</b>	Ellice	LIBERAL
<b>HAMMOND, Gerrie</b>	Kirkfield Park	PC
<b>HARAPIAK, Harry</b>	The Pas	NDP
<b>HARPER, Elijah</b>	Rupertsland	NDP
<b>HELWER, Edward R.</b>	Gimli	PC
<b>HEMPHILL, Maureen</b>	Logan	NDP
<b>KOZAK, Richard, J.</b>	Transcona	LIBERAL
<b>LAMOUREUX, Kevin, M.</b>	Inkster	LIBERAL
<b>MALOWAY, Jim</b>	Elmwood	NDP
<b>MANDRAKE, Ed</b>	Assiniboia	LIBERAL
<b>MANNES, Clayton, Hon.</b>	Morris	PC
<b>McCRAE, James Hon.</b>	Brandon West	PC
<b>MINENKO, Mark</b>	Seven Oaks	LIBERAL
<b>MITCHELSON, Bonnie, Hon.</b>	River East	PC
<b>NEUFELD, Harold, Hon.</b>	Rossmere	PC
<b>OLESON, Charlotte Hon.</b>	Gladstone	PC
<b>ORCHARD, Donald Hon.</b>	Pembina	PC
<b>PANKRATZ, Helmut</b>	La Verendrye	PC
<b>PATTERSON, Allan</b>	Radisson	LIBERAL
<b>PENNER, Jack, Hon.</b>	Rhineland	PC
<b>PLOHMAN, John</b>	Dauphin	NDP
<b>PRAZNIK, Darren</b>	Lac du Bonnet	PC
<b>ROCAN, Denis, Hon.</b>	Turtle Mountain	PC
<b>ROCH, Gilles</b>	Springfield	LIBERAL
<b>ROSE, Bob</b>	St. Vital	LIBERAL
<b>STORIE, Jerry</b>	Flin Flon	NDP
<b>TAYLOR, Harold</b>	Wolseley	LIBERAL
<b>URUSKI, Bill</b>	Interlake	NDP
<b>WASYLYCIA-LEIS, Judy</b>	St. Johns	NDP
<b>YEO, Iva</b>	Sturgeon Creek	LIBERAL

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

Thursday, January 26, 1989

**TIME — 7 p.m.**

**Mr. Chairman:** Agreed? (Agreed)

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN'S RULINGS**

**CHAIRMAN — Mr. Herold Driedger (Niakwa)**

**Mr. Chairman:** Before we proceed, at the committee hearing held January 23, 1989, I took three points under advisement during the course of the proceedings.

**ATTENDANCE - 11 — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Downey, Manness  
Messrs. Burrell, Cowan, Driedger (Niakwa),  
Gaudry, Harper, Kozak, Lamoureux

First there was a dispute over the facts as to whether the Public Accounts Committee had completed its review and approved the Report of the Provincial Auditor for the period ended March 31, 1987. The Minister of Finance (Mr. Manness) was correct in indicating to this committee that the report had been passed at a meeting held on January 28, 1988. This fact, however, had not yet been reported back to the House because the committee had not begun its considerations of the Public Accounts for the period ended March 31, 1987, and generally the Public Accounts Committee does not report to the House until it has completed its examination of the Auditor's Report and the Public Accounts.

**APPEARING:** Mr. Fred Jackson, Provincial Auditor  
Mr. John Singleton, Assistant Provincial Auditor  
Mr. Rick Mayer, Director, Special Audits  
Mr. Eric Rosenhek, Comptroller, Department of Finance

The second point that was raised was whether or not the Report of the Provincial Auditor is to be tabled in the House. Subsection 13(3) of The Provincial Auditor's Act does state that the Report of the Provincial Auditor is to be tabled but, as the Minister of Finance (Mr. Manness) pointed out at the last meeting, the House was not in Session the day the Provincial Auditor released his report so copies were just distributed to Members of the Legislative Assembly.

**MATTERS UNDER DISCUSSION:**

Public Accounts 1986-87 (Passed)  
Public Accounts 1987-88  
Provincial Auditor's Report 1987-88

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Although the report in question has not been tabled, a similar circumstance occurred last January when the Public Accounts Committee was considering the Auditor's Report and the Public Accounts for the fiscal year 1986-1987, while these documents were not tabled in the House until February 12, 1988.

Perhaps this committee would like to request that the Rules Committee review the practice of Standing Committees examining reports before they have been tabled in the House. In accordance with usual practice and with The Provincial Auditor's Act, the Minister of Finance (Mr. Manness) will be tabling a copy of the Auditor's Report for the period ended March 31, 1988, during the next Session of the Legislature.

\* (1905)

A point of order was raised by Mr. Cowan as to whether this committee could ask questions about Phases 1 and 2 of the external audit which has been carried out by the private consultants. Part of it was ruled upon, Mr. Cowan. I am aware that in other jurisdictions, such as the House of Commons in Ottawa, they have set out within the Rules of the House clearly stated mandates for committees, some of which provide generous latitude. In Manitoba the mandate of the Public Accounts Committee, as well as that of other

**Mr. Chairman, Herold Driedger:** Please, we do not have a quorum yet. The thing is you have to have a quorum of the committee before you can actually do the nominations.

**Mr. Jay Cowan (Churchill):** What is the quorum of the committee?

**Mr. Chairman:** Six.

I call the committee to order. I have received letters of resignation and will entertain nominations for replacement of committee members. I have a resignation for Jerry Storie, the Member for Flin Flon. Who are we going to nominate to replace him?

**Mr. Cowan:** I nominate Elijah Harper, the Member for Rupertsland. (Agreed)

**Mr. Chairman:** I have received a resignation for Harold Gilleshammer, MLA for Minnedosa. Nominations to replace?

**Mr. Parker Burrell (Swan River):** I nominate the Honourable Member for Arthur (Mr. Downey).

**Mr. Chairman:** Agreed? (Agreed) I have a resignation from Gilles Roch, MLA for Springfield.

**Mr. Kevin Lamoureux (Inkster):** I nominate the Honourable Member for Transcona (Mr. Kozak).

committees of the Legislative Assembly, is spelled out in the motion presented to the House on the first day of a new Legislature. It states in part that the Standing Committee of the House "shall be empowered to examine and inquire into all such matters and things as may be referred to them and to report from time to time their observations and opinions thereon." This is reinforced by Beauchesne Citation 621(1): "A committee can only consider those matters which have been committed to it by the House." There is no other legislative provision in Manitoba which addresses the mandate of the Public Accounts Committee. By practice, the historical function of the Public Accounts Committee has been to examine the report of the Provincial Auditor and the Public Accounts.

Perhaps if in the latest Auditor's report or in the Public Accounts some mention had been made of this external audit one could argue that the audit comes within the purview of this committee. However what is before this committee for its consideration is the report of the Provincial Auditor for the fiscal year ended March 31, 1988, and the Public Accounts for the fiscal years ended March 31, 1987, and March 31, 1988. I must therefore conclude that any discussion of the external audit would be out of order, firstly because it would be outside the scope of this committee's given mandate and secondly because it falls outside of the time period we are considering—that is April 1986 to March 1988, although procedurally speaking a committee is bound by the time frame of the annual report before it. In practice, a reasonable latitude has been allowed by this committee in the past with respect to time frame.

The Public Accounts Committee historically provides an "after the fact" review of fiscal administration and accountability of the Government of the Day and the House is the place for discussion of questions of current issues.

I would suggest to members of this committee that the matter of the mandate of the Public Accounts Committee is something that should be addressed by the Rules Committee. The Public Accounts Committee may wish, before it has concluded its work, to make by way of motion some suggestions for the Rules Committee to consider and ultimately upon which the House will decide.

I also have a concern which I would like to raise with this committee about another matter and that is how substitutions of committee members were carried out at the last meeting. Our Rules are clear. Rule 71(1) states that a member of a committee who resigns may be replaced by a vote of the committee. This is also set out in Subsections 64(3) and (4) of The Legislative Assembly Act which states that the correct process to be followed during a recess or after prorogation is for the member who wishes to resign from and be replaced as a member of the committee to deliver notice of his or her resignation in writing to the Chairperson of the committee or to the Clerk of the House. When the committee receives such a resignation the committee proceeds to fill the vacancy by a majority vote of the committee and the committee subsequently reports this action to the House.

During the past Session, committees proceeded on one or two occasions to make committee changes by

unanimous consent. I would point out that unanimous consent, according to Beauchesne Citation 14, does not constitute precedent. While we always have the "escape valve" of unanimous consent to handle a particular situation on a one-time basis, I believe it would be helpful if in future all Parties followed the usual procedure in making committee substitutions.

**Hon. Clayton Manness (Minister of Finance):** Firstly, let me thank you for the greater clarity that you have brought to the number of issues that you have addressed in your opening statement.

I would like to say welcome to Mr. Jackson.

### POINT OF ORDER

**Mr. Jay Cowan (Churchill):** Excuse me. On a point of order, Mr. Chairperson. You have made a ruling with respect to the latitude.

**Mr. Chairman:** Mr. Cowan, on a point of order.

**Mr. Cowan:** On your ruling, I wish to challenge that aspect of the ruling that says that we cannot discuss Phase 1 and Phase 2 of the audit during these committee hearings.

**Mr. Chairman:** I wish to remind all members that a challenge to the Chair, or in this instance, would challenge the entire ruling, not just a part of it.

**Mr. Cowan:** Well, then I will challenge the entire ruling, but I think it was inappropriate and ill-considered for the Chair to give a ruling that contained more than one element if in fact the Chair is going to suggest that we have to challenge the whole ruling. But the part that we take offence to is the part that would shut down and prohibit discussion in this committee of Phase 1 and Phase 2 of the audits.

**Mr. Chairman:** All those in favour, please raise their hands.

**An Honourable Member:** In favour of the ruling?

\* (1910)

**Mr. Chairman:** In favour of upholding the Chair. How do we put this?

All those in favour of the challenge to the Chair, raise your hand, please.

In support of the Chair . . . be clear on the questions concerned.

**An Honourable Member:** I want to vote in support of the Chair.

**Mr. Chairman:** All right, I will repeat this. I thought I would start off with the challenge, but what I will do I will follow this particular pattern.

All those in favour to support the ruling of the Chair, raise your hands. All those in favour of supporting the challenge to the Chair.

In my opinion, the ayes have it.

**Mr. Cowan:** On a point of order, Mr. Chairperson.

**Mr. Chairman:** On a point of order, Mr. Cowan.

**Mr. Cowan:** I seek your direction. I would like to ensure that the way in which the committee members voted is noted in writing. How do I do that in this particular circumstance?

**Mr. Chairman:** Would you repeat the question, please?

**Mr. Cowan:** I would like to ensure that it is noted in the official record and in writing how committee members voted on this issue. I am seeking a direction as to how best accomplish that.

**Mr. Chairman:** I am assured it will be recorded as who voted in what and in which way.

**Mr. Cowan:** Thank you very much.

**Mr. Chairman:** Can we proceed? Mr. Manness.

**Hon. Clayton Manness (Minister of Finance):** Mr. Chairman, again I want to begin by thanking you for the greater definition that you brought to a number of the issues with respect to your ruling on other matters.

I would like to begin though by introducing Mr. Jackson, who does not need my introduction. He is well known by each and every one of us around this table, the Provincial Auditor. I apologize to him for some of the inconvenience that occurred the other day when he could not be with us.

I also would like to indicate that given that Mr. Jackson is here that we maybe change the order of our reviews. Firstly, that we still consider '86-87 Public Accounts and then maybe move back to the traditional form when the Provincial Auditor can move into his report to the Legislature which can be reviewed by the Members of the committee. Following that consider the Public Accounts '87-88, if that is acceptable to the committee.

**Mr. Chairman:** Is that acceptable to the committee, to begin with the consideration of Public Accounts for the year ended March 31, 1987 and to complete the business of the '87 fiscal year still before this committee? What is the rule of the committee?

**Mr. Richard Kozak (Transcona):** We would agree with the Minister of Finance that our primary duty is to examine in as much detail as available to us in the time allotted the Public Accounts for 1987-88, in that we review the accounts for 1986-87 of being interest primarily as a guide to assist us in ascertaining which recommendations of the Provincial Auditor were carried through in the fiscal year 1987-88 and which were not acted upon.

**Mr. Manness:** I am sorry, I did not hear the full question obviously but if you have specific questions as to what changes were carried forward into the next fiscal year,

no doubt you might like to ask that question of Mr. Jackson in due course.

\* (1915)

**Mr. Kozak:** I wonder if I might first of all welcome the Provincial Auditor on behalf of my colleagues and, secondly, ask him whether he feels that all of the concerns he expressed regarding the Public Accounts of 1986-87 were adequately addressed during the period 1987-88. A very general question, I hope the Auditor will indulge me.

**Mr. Fred Jackson (Provincial Auditor):** -(inaudible)- were addressed. There are a few exceptions. One of the exceptions was the pension plan situation, another was the fixed asset situation (inaudible).

**Mr. Chairman:** I would like to remind all Members to raise hands for acknowledgment.

**Mr. Kozak:** In terms of the urgency of these two items, I wonder if the Provincial Auditor feels that the two are of equal priority or that one has greater priority, in terms of the impact on the province's finances than the other.

**Mr. Jackson:** Both items, Mr. Chairman, are considered to have a significant impact on the financial position over all of the province. Of course, one figure is available by approximation and the other figure is basically unavailable. So from a significance point of view it is hard to relate one to the other. One tends to put the province's financial position in a less attractive position, i.e., the pensions, whereas conversely the fixed asset situation tends to put the province in a more favourable position. In a sense, if you brought on one without the other you would not be enhancing the overall financial position. For one to fully reflect the situation in the fairest possible way may require some funding, the other one does not.

**Mr. Kozak:** I wonder if the Provincial Auditor would agree that the vast majority of physical assets of the province can, to all intents and purposes, be considered not only in the short term but also in the long term not marketable assets, not assets that are likely to be realized in terms of their value, assets that, in fact, the province in its own interest will be required to retain.

**Mr. Jackson:** In the broadest possible sense of fixed assets you get into natural resources. There is an element, of course, of marketability to anything that has a natural resource connotation. That includes such basic things as gravel, any of the minerals in the ground, any possibility for oil, timber limits, etc. Moving away from those less common things in classifying them as physical assets you hit buildings, infrastructure, things that have been constructed, not basically for resale in the classical sense that you would see them in a corporate sector, but they were acquired for service to the public. While they are not built or put in place to necessarily attract future revenues, they are there to provide future services. So while there is not the attractiveness there to specifically relate to future

revenues, it would be hard to say that they were not every bit as valuable as if they did attract future revenues in that they are there for future services. If they were not there and those future services are still required to be provided, we would probably either have to buy or rent.

\* (1920)

**Mr. Kozak:** I, of course, fully concur with the Provincial Auditor's statement that, in fact, reflects the complexity of the matter of accounting and reporting for the province's physical assets.

I note, Mr. Chairman, that the province is presently awaiting recommendations being developed by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants before making any decisions on this matter. May I ask the Provincial Auditor if he deems this the most appropriate course of action in recognition of the excellent track record in the development of recommendations achieved by the CICA over time?

**Mr. Jackson:** There is indeed merit in following a standard that is promulgated by an authoritative source. However, one of the things that will be required in this particular instance is a Government to be in position to react to a standard that is promulgated at the time that it is promulgated. We thought and put forward in our report for 1987 and again for 1988 that the Government should be taking steps to gather the information to highlight the physical asset situation.

Physical assets are considered to be useful for a financial presentation not just from the prospective of the totality of the physical assets themselves, but how much is being spent on new physical assets over the year, how much is being spent in maintaining physical assets over the year, what the life expectancy is of those physical assets so there can be some determination as to what future cash needs need to be specifically for physical assets into the future. In a sense, one cannot get a fuller understanding of what the cash flow requirements for the overall needs of the Government are for the future if this important aspect is not fully considered.

**Mr. Kozak:** The remarks of the Provincial Auditor are most helpful. I wonder, given the evident complexity of this matter, if the Provincial Auditor could possibly alert us to precedents employed in other provinces across Canada that might assist this committee in providing the Government with direction on accounting for physical assets of the province.

**Mr. Jackson:** Generally speaking, most of the jurisdictions at the provincial and federal level follow a similar practice as does the Province of Manitoba, i.e., expenditures on fixed assets are charged to expenditures in the year of acquisition. At the local Government level, there are several practices followed, one of which is to record physical assets. We depreciate them over the time of the debt that is outstanding against those assets. Some local Governments record the assets and leave them on their books into perpetuity

until they are disposed of but there are several alternatives that are used at the local Government level.

**Mr. Kozak:** The usefulness of this approach over time is certainly clear to every Member of this committee. I think I say that with complete confidence. I wonder if I might divert for a moment to address the Minister of Finance to ask him if he feels comfortable with the approach of awaiting the recommendations of the CICA before making final decisions on the matter of accounting for physical assets of the province.

**Mr. Manness:** Well, Mr. Chairman, I certainly do. As I indicated the other day, I am of mixed mind within this whole area. My basic understanding of balance sheets in a governmental aspect does not, I suppose, cause me to have the same concern with this that certainly Public Auditors and indeed some of my own Finance officials do but nevertheless I look forward to the recommendations that are coming forward from the federal committee that is looking at this and in a sense that they can be incorporated without too much cost in assessing the value of our physical plant. I have no problem with it.

\* (1925)

**Mr. Kozak:** I think it is clear that there is realization around the table that this is a matter of importance. If I might ask the Provincial Auditor if he has an indication as to the time frame that CICA will require to complete their recommendations on this matter? In other words, are we looking at delaying consideration of this topic for a number of years or does he expect that we can expect recommendations this year?

**Mr. Jackson:** It is my understanding that the Institute of Chartered Accountants Public Sector Accounting and Audit Committee has requested a research study on an appropriate method of recording and accounting for fixed assets for the federal and provincial Governments in Canada. It is also my understanding that they are expecting to complete that research study by the end of September of 1989.

That research study may provide sufficient insight and sufficient direction to cause some Governments to move. I would expect that it would be probably at least two years after that time before recommendations come forward from the PSAAC.

**Mr. Kozak:** So, it is fairly clear that we are looking at a fairly long term project. It occurs to me that the Provincial Auditor's office will at some point in the future be involved in the accounting for physical assets owned by the Province of Manitoba. I think it is no secret to Members of this committee that there are many involved in political life who feel that the Provincial Auditor's office's resources are strained at the moment in terms of person years available to the office in terms of the resources available to the office.

If it is not unfair to the Provincial Auditor, may I ask him if he feels that the workload he anticipates as we do account for the province's physical assets would be beyond the present capability of his office with its present staffing and funding.

**Mr. Jackson:** If we were to consider just the element of the physical aspect, there might be, or there would be considerable effort over a short time frame to ensure that the starting position of the physical assets were correctly recorded. However, once that was done initially, it would not be a significant task to audit that aspect of the operations.

**Mr. Kozak:** I wonder if the Provincial Auditor would feel that he would require specific direction from this committee to do some preliminary investigative work in this area, or he feels that it is within his competence to proceed on this matter without the direction of this committee.

**Mr. Jackson:** We do not consider it necessary to receive direction from the committee to proceed.

**Mr. Kozak:** I find that quite satisfactory for the moment on this particular point, Mr. Chairman. I believe all Members of the committee are interested in extending a hearty commendation to the Provincial Auditor's office for the initiative that it is prepared to show in this matter, and we look forward to learning from the Provincial Auditor, as we look forward to learning from the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

I would at the same time, Mr. Chairman, like to address a matter that I feel there may be a bit more urgency about in terms of this committee's involvement. In the last meeting of this committee on Monday of this week, I expressed considerable concern and I do not feel the concern is limited to my Party or to the Provincial Auditor considerable concern related to the unfunded pension liabilities of the province. The Provincial Auditor has recommended that the Estimates presented to the Legislative Assembly for the year ended March 31, 1991, contain a provision for recording pension benefits earned by employees during that year.

\* (1930)

**Mr. Chairman:** Mr. Kozak, are you moving past the 1987 Public Accounts? Are you going into the next series of questions of something in another fiscal year?

**Mr. Kozak:** No, my comments are simply preface to what I intend to say regarding the present fiscal year.

I note that the Provincial Auditor finds it, as he has in the past, unsatisfactory that the Government in its Public Accounts for the present fiscal year has not presented an actuarial statement.

**Mr. Chairman:** Mr. Kozak, excuse me, are you restating something we are now at this moment considering or are you proceeding onto the next fiscal year?

**Mr. Kozak:** I am proceeding with the current fiscal year in 1987-88 under consideration.

**Mr. Chairman:** Shall we accept the Public Accounts for 1986-87? Then the committee passes the Public Accounts for 1986-87 and we can proceed with the consideration of—we can then entertain the Auditor's

Report to the 1987-88 report. Generally, the Auditor likes to make an opening statement.

**Mr. Jackson:** One of the things that I would like to say, perhaps by way of an opening statement, is that while we do not formally equate all of the considerations that go into an overall evaluation of one fiscal year as opposed to another, we sometimes get called upon by the press to indicate the relative ranking that our office might give the Public Accounts and the circumstances that we worked under in coming to the conclusions that we arrived at in carrying out the work of our office and developing our Provincial Auditor's Report. One of the things that we did this year was we came out and gave the administrative actions taken by Government a strong "B-plus," that compared to a strong "B" in the former year.

One of the things that I was asked by the press at the time was which administration should get credit for that? I had to indicate, and I would be less than objective if I did not do this, that both administrations had to get credit for the movement towards the "B-plus."

**Mr. Kozak:** Which one really deserves it?

**Mr. Cowan:** That is a given.

**Mr. Kozak:** All of my colleagues are honourable colleagues. I do not begrudge credit to each and every one of them.

For fiscal 1987-88, the Provincial Auditor expressed some concerns not only in the area of accounting for physical assets owned by the Provincial Government but also, as Mr. Jackson has stated, expressed some concern related to accounting for pension costs.

In the meeting of this committee on Monday of this week, I expressed in some detail my Party's feelings regarding the approximate \$1.1 billion in unfunded pension liabilities of the province. I note, with some dismay, that the proposal advanced by the Auditor's office for dealing with this matter is not as rigorous as some that I, myself, could imagine. The Provincial Auditor has recommended that the Estimates presented to the Legislative Assembly for the year ended March 31, 1991 contain a provision for recording pension benefits earned by employees during that year. This recommendation, while it certainly moves in the correct direction, and no one will dispute that, startles me on two grounds. One, that it provides something of a free ride to the Government and to Members of this committee during the fiscal year, 1989-90, and two, that it provides and instructs and advises only recording pension benefits earned by employees during that year, as opposed to a complete actuarial evaluation of accumulated unfunded pension liabilities developed over a period of some years into the past.

To reflect this concern, Mr. Chairman, and to demonstrate the urgency with which my caucus views this matter, taking into account the assurances offered by the Minister of Finance (Mr. Manness), that this is a matter that is also important to him, I would like to take this opportunity to make a motion that directly reflects my comments of Monday of this week.

Mr. Chairman, I move, seconded by the Honourable Member for St. Boniface (Mr. Gaudry),

THAT this committee charge the Minister of Finance with the responsibility of preparing and presenting with the Public Accounts for 1988-1989, and for subsequent years, an actuarial valuation and report of the Government's accumulated unfunded pension liabilities, including a statement of the additions to such liabilities in the most recent fiscal year.

I make this motion, Mr. Chairman, without requiring of the Government a solution to this matter, simply requiring an actuarial evaluation of the magnitude of the problem.

**Mr. Chairman:** On the motion presented by Mr. Kozak that this committee charge the Minister of Finance with the responsibility of preparing and presenting with the Public Accounts for 1988-1989, and for subsequent years an actuarial evaluation and report of the Government's accumulated unfunded pension liabilities including a statement of the additions to such liabilities in the most recent fiscal year. What is the will of the committee?

\* (1940)

**Mr. Maness:** I beg your indulgence just for one moment before you admit the motion. I am wondering if you would give me just a few seconds with Mr. Rosenhek to determine the complete feasibility of what is being requested. I am wondering if the committee would give me that. After having conversed with Mr. Rosenhek, it is my belief that the motion is in order.

**Mr. Chairman:** Once again, what is the will of the committee on the motion by Mr. Kozak?

**Mr. Kozak:** I believe, Mr. Chairman, it might assist the committee if I made a few remarks at the outset of this debate.

Over a period of some years, through agreements with direct and indirect employees of the provincial Government regarding pension benefits, the Government has undertaken a financial liability related to future years and payable in future years which at this point in time have reached the amount of approximately \$1.1 billion.

I note with some dismay that despite the fact that successive Auditors' reports, Governments and Oppositions have recognized the growing magnitude of this financial obligation of the Province of Manitoba, that very little progress has been made since 1986 when the Government first undertook to produce an actuarial evaluation of its obligations and did so. I believe that our grasp of this matter in the period from 1986 to early 1989 has advanced very little, if at all. I regret that and my caucus regrets that. I suspect we are not the only ones who regret it because we are now talking about an obligation on the part of the taxpayers amounting to in excess of \$1 billion—\$1,000 for every man, woman and child in the province.

The Minister has responded with courtesy and I believe with earnestness and sincerity in response to

questions that I have asked him during Question Period in the House, during Estimates debate and in this committee related to this growing problem which over time, unless we deal with it, threatens the ability of the province to provide services to its people, threatens the ability of the province if unintended to service its debt obligations, and also must question our determination to understand the fiscal obligations that we face. Most Manitobans I would venture to say are completely unaware of this \$1 billion obligation that they in the final analysis bear responsibility for.

We have to be up front about it. I feel strongly that the Minister's approach, i.e., consultation with other provinces to develop a coordinated strategy for dealing with the problem is perhaps not as speedy an approach as I myself would favour. However, I feel his approach is a start. In real terms however very little has been accomplished in the three years since 1986 when this problem first wound up on our table, shall I say.

In drafting this motion my objective was, in the interest of cooperation, in the interest of being constructed, a limited objective. The motion does not direct the Government to determine a solution to the problem of unfunded pension liabilities in the next 12 months or 11 months. It does not impose an undue strain on the Government in that respect. It simply directs the Government to determine the amount, in as exact terms as possible, of the financial obligation that this province faces. Clearly, the debt of the province is over \$1 billion higher than reported in the Public Accounts that we have before us. Clearly, this indebtedness is growing by an amount in excess of \$100 million a year. We need to know the numbers before we can find solutions. My motion has the limited intent of imposing an obligation worded in a friendly manner on the Government to identify the magnitude of the problem and the rapidity of its growth and to allow the Minister a completely free hand in his negotiations with his provincial and federal colleagues in determining solutions. I would hope that all Members of this committee would realize that the intent of this motion is a collaborative intent, an intent to be constructive as opposed to an attempt to grandstand or impose undue strain on the Government's resources.

**Mr. Maness:** I thank the Member for Transcona (Mr. Kozak) for his friendly motion.

I guess my question is more specifically, I am trying to determine what it is ultimately Mr. Kozak is looking for. Is he looking for more information with respect to this unfunded liability? Is he looking for more timely information? Is he ultimately looking for a more sudden provision in some upcoming Budget with respect to this? I am having trouble reading through the motion per se and in listening carefully to some of his comments as to ultimately what he wants. I can indicate that right now, as has been reported, page 1(19), Public Accounts year ending March 31, 1988, Volume 1, I would think, that we give some detail associated with our pension liability.

I would consider providing greater detail associated with that. We have some greater detail that we could provide to that. I want to make sure that there are



some parameters also. Is he looking for greater detail associated with teachers' pensions, civil service pensions, Crown corporation employees because it covers the gamut? Right now we are providing basically a three-year evaluation, last time being done December 31, 1986, and then we project, I understand, two years hence from that point and then do another evaluation the third year following. At this point in time, John Turnbull and Company are performing these evaluations at the cost of, I am lead to believe, roughly \$100,000 a year. So I guess I would ask the Member specifically what is he wanting? Is he wanting an evaluation on a per yearly basis, done every year? Is he wanting more of the detail associated with the formula that we put into place to project what we think our unfunded liability position is between those three years and those types of matters? If he could answer, it would give us some greater understanding of what he wishes.

**Mr. Kozak:** If it is in order, Mr. Chairman, I would be pleased to respond.

\* (1950)

My intent, Mr. Chairman, is to light a fire under each and every one of us. In 1986, as the Minister agrees, an actuarial evaluation of our unfunded pension liabilities was produced. I feel that if such an evaluation is produced annually and is given high profile by us as legislators and by us as a committee that we will be impelled to do something to address the problem of the growth of the unfunded pension liabilities, something that in fact we have not done over the last three years. My intent is to highlight the urgency of the matter based on the size of the matter, based on the rapid growth of the problem.

My motion is, I might add, in response to the Minister's question, in line with the April 1988 recommendation of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants. I would refer the Minister to items 35 through 40 of the Public Sector Exposure draft dated April 1988, under the heading "Trust Funds under Administration," in which the Canadian Institute of Chartered Accountants do recommend that Government financial statements and certainly the Public Accounts are—this Government's financial statements should disclose trust funds under administration and, by extension, deficiencies in such funds.

**Mr. Manness:** Mr. Chairman, two points. First of all the April report, the PSAAC Report from which Mr. Kozak is drawing some of his reference, I would suggest to him that that document may be superseded to some extent because that committee has met several times since then and that may not be the last thinking specifically within that area. I only point that out for comment.

Secondly, I have no problem as a Government with respect to how we display the pension liability in greater fashion so that it is exhibited in a higher profile sense. I do not think that doing evaluations every third year or every year in itself is going to provide that. If it is

buried somewhere back in page 843, to use an example, it is not going to draw that much of a note.

I point out to the Member that it is \$100,000 of money that he is asking us to provide to Mr. Turnbull and associates who I am sure will be glad to accept it, but more importantly than that, if he finds fault with the way that we have used the estimate in '86—not the estimate—the actuarial estimate in '86, December 31 in '86, and how we are projecting from it, let us correct that. Let us do a better job of that, if he senses that we are failing in representing what the actual number is, and then put our efforts to display it better. I am delighted with the attention that Mr. Jackson has given the subject over a number of years. I think the press, the media and the politicians are becoming more aware of it. Hopefully, the community at large is.

So I think we are serving the purpose. I really do not think we really aid the whole process by doing it every year at that cost. I really do not. I think there is a better way of continuing to highlight it and continuing to impress upon the community at large what pension liability that we have.

**Mr. Kozak:** I think the Minister appreciates that I am as averse as he is, or as any Member of the Legislature is, to any imprudent expenditure, be it \$100,000 or \$100 million. However, I think that many members of this committee, if not all of us, are concerned at the spiralling liability that we face and are determined that public awareness of this matter be raised, and to determine that three years not again pass where so little is accomplished, if anything, to actually deal with the matter. If we light a fire underneath ourselves we are more likely to do something and my colleagues and I will be supporting the motion that I have advanced.

\* (2000)

**Mr. Manness:** Mr. Chairman, I guess I have to indicate that I cannot support the motion because to me it is a \$100,000 fire. I would prefer that the committee request of Mr. Jackson, when he does another report to the Legislature, that he make it his No. 1 item. I think it is almost there, if it has not been there for the last number of years. I think those particular situations or results or factors can bring this subject to greater light than just spending \$100,000 to bury it somewhere in the back or to give it, instead of a quarter-page contribution, a half page. I am sorry, I have to vote against the motion.

**Hon. James Downey (Minister of Northern Affairs):** Mr. Chairman, not to prolong the debate on this matter and to support my colleague, the Minister of Finance (Mr. Manness), in his opposition to this, I say this. Following listening to the Member who introduced the motion, the recording of the reporting of it, I think, is important for public knowledge, but what was lacking, I think, coming from the Liberal Caucus and the Liberal Party, was some recommendation as to the solution as to what tax he would impose to help solve the solution because, really, that is what you are talking about. You have a debt which has been pointed out and either you have to prepare to put a tax on the people of

Manitoba or to cut a service, and which would start to develop a fund. Yes, I am sure he would light a fire under the taxpayers if he were to impose or to suggest one, and that is what I would challenge him to do at this particular time, to light the match and tell the public how much he is prepared, as a Liberal Party, to tax them to pick up this fund or to pay this debt.

**Mr. Kozak:** I am only too pleased to respond to the considerate remarks of Mr. Downey. On Monday of this week when I raised this matter I was somewhat disheartened at the response of the Minister of Finance (Mr. Manness) when I raised the question of the \$1.1 billion in unfunded pension liabilities. The response of the Minister at that time—and I do not begrudge anyone in this room the right to be a politician; I know every one of us has political motivations. The Minister at that time suggested that it is not attractive to any Government to admit that its deficit is really \$100 million a year more than that it is saying.

I think Manitobans should know that our deficit is \$100 million more than we are saying. Mr. Downey (Minister of Northern Affairs) expresses concern, and I understand his concern and I share it, regarding the impact that the \$1 billion accumulated liability and the \$100 million added per year will have on the taxpayers' psyche and on the burden imposed on the taxpayer. The sooner we address this problem, the better off we are. "Pay me now or pay me later" is a saying that we have all heard.

The basic approach to solving a problem—and this is a problem that must be solved as it is \$1 billion and growing every year—is to admit that it exists. We have been having trouble admitting that this problem exists. I do not want to point fingers at the previous Government or the present Government. No Member of this House, no Member of the Government wants to say that the deficit is really \$100 million more a year than we are telling the people. The longer we put off highlighting this matter before the public, the more serious will be the harm done to the quality of services provided to the public by the Government of Manitoba, and the more serious will be the eventual impact on taxes paid by Manitobans. I think it is awfully important to raise the profile of this matter so that the next three years will not proceed as the last three years, in which the lumps that we have been sweeping under the rug keep getting bigger and bigger.

**Mr. Cowan:** I would like to hear the Provincial Auditor's comments, not directly on the motion itself, but on the proposed plan that is contained within the motion. In other words, I am not asking him to involve himself in the political side of the debate, but he has indeed referenced this issue as a concern. I would ask him if he believes a plan of action is contemplated by the motion would help alleviate the problem and would help move us toward a solution of the problem, or does he have in mind other options which could be equally workable or even better perhaps?

**Mr. Jackson:** The Minister of Finance (Mr. Manness) suggested that some of the material that Mr. Kozak had might be slightly out of date. The Minister of Finance

was quite correct. In September of 1988 the PSAAC Committee issued recommendations for accounting for pension plans that supersedes that draft.

As a consequence there are, in fact, standards in place now that will cause this matter to receive a significantly higher profile in that standards have been promulgated for the pension to be treated in a certain matter. If it is not it is one of the matters that legislative auditors across Canada will have to consider and possibly qualify their audit opinion on the financial statements of those entities.

In that regard I might point out that two jurisdictions have already done that. The Government of Canada has qualified their financial statements because of the lack of appropriate disclosure for pension plans as has the Province of Quebec. I would expect with those standards in place it would be reasonable to expect that there would be almost a standard qualification arising in that regard over the next year.

Further, one of the things that was recommended in the motion follows along our recommendation, that steps be taken as soon as possible to make this figure as accurate as it can be. Information is secured now for the Civil Service Superannuation Fund, and that basically encompasses all of the civil servants and the employees of pretty well all of the Crown agencies that participate in the Civil Service. The one gap that seems to be there relates to the Teachers' Retirement Pension Fund. So that is a relatively and perhaps a smaller number. It is not as large as the Superannuation Fund. The liability perhaps is bigger. It is the one area that there seems to be a hole in that information is not available from an actuarial perspective. The Minister is quite right in that an amount is paid every three years to do this and that information is available. It is available to be used for this higher profile. There is only the one aspect that is not available as far as we know, and that is the Teachers' Retirement Fund.

**Mr. Kozak:** Is the Provincial Auditor stating then that my motion is redundant in terms of standards that he will already be applying for the fiscal year that we are now entering.

**Mr. Jackson:** The standards that have been issued relate to the accounting for pension costs and liabilities that result there from, the standards do not address the funding side of the thing. There will have to be a fair bit of work undertaken to address the funding aspect because as has been evidenced by several Members around the table, this is a real concern. It will be addressed perhaps with only a great deal of difficulty in the years ahead. It does not have to be addressed all at once by any stretch of the imagination but the accounting for it can be.

**Mr. Kozak:** I would like to thank the Provincial Auditor for his explanation, however I do not perceive in his explanation anything that conflicts with the motion on the table or makes it redundant. The motion was worded in such a way as to include the teacher's pension as well as other public employee pensions. Does he feel that the motion is not required in that he will already

be applying a much higher level of auditing standards in the matter of the unfunded pension liabilities for the fiscal year 1989-90?

**Mr. Jackson:** As I indicated previously, there is now a standard in place in regard to the accounting for pension plans that was not there in the previous year. It was not there at the date of the completion of our audit for the 1988 fiscal year. It is now there. It is something that we will have to take into consideration. I suggested that already two jurisdictions in Canada have had qualifications in this regard. I would expect that there would be anymore. We are certainly considering that.

**Mr. Kozak:** To prevent our proceeding on a motion that may be a few months out of date due to an improvement on a draft produced in April 1988 that was produced in September 1988, would it be more appropriate in the Auditor's view to provide direction to the Government to adhere to the standards promulgated by the CICA in September 1988?

**Mr. Jackson:** As the Member indicates, they are two quite different things. The committee can take whichever stance it would prefer to take. The first stance, as I understood it, was to be seeking information so that the accounting material could be complete.

The second one is a more comprehensive one perhaps that moves the thing along from the legislative perspective.

**Mr. Cowan:** Given that the motion was inadvertently based on some information which is now somewhat out of date, and given that there appears to be a willingness on the part of all Parties involved in the debate to ensure that this issue receives the recognition that it deserves and also to ensure that the issue is highlighted so that there is better information available to all Parties and to the general public with respect to this growing problem, not only in this province but across the country and I would suggest in many other countries as well. I might suggest that the Member withdraw his motion for the purpose of seeking a consensus motion through consultation between now and the next meeting. There will be another meeting of this committee, of the three Parties, so that perhaps a motion could be brought forward that would enjoy the support of all the Parties.

\* (2010)

**Mr. Kozak:** The Public Accounts Committee as it operates not only in this jurisdiction but across Canada is different from many other committees. It is incumbent upon us to divorce ourselves from partisanship to a certain extent and in that spirit I am only too pleased to pursue all-Party agreement as an alternative to a fast resolution. I understand that this committee will be meeting again in due course in the near future and I am only too pleased to consult with my colleagues in the Second Opposition Party and the Government to see if we can develop a joint stance.

Therefore I, with permission of the committee, will withdraw the motion.

**Mr. Chairman:** Is it the will of the committee to allow the motion to be withdrawn? (Agreed) The motion is withdrawn. What is the will of the committee?

**Mr. Cowan:** A point of order. It is my understanding that we had agreed that we would sit until 9 p.m. this evening, 7 p.m. to 9 p.m., and I am prepared to allow the Opposition critic to continue along with lines of questioning and other issues if he wishes. We have some questions that we would like to ask as well, but they can wait till the next meeting if necessary or we can ask them later in this meeting.

**Mr. Chairman:** The Member does not have a point of order.

**Mr. Kozak:** Mr. Chairman, to ensure that the Second Opposition is given time in this meeting to address its concerns, and I hope I am known as a Member that is very anxious that we all have full opportunity to participate, I will proceed to only one other matter at this time.

Over the period of nine months since the election of the new Government—it seems longer, actually—we have witnessed a phenomenon that I do not intend to debate because it is not open to debate due to a ruling by the Chairman earlier this evening. We have witnessed the phenomenon of a three-phase audit which the Government undertook some months back and which is proceeding. I do not intend to discuss this audit, Mr. Chairman, other than to point out that this committee relies primarily over time on the Provincial Auditor and his office to conduct such audits as may be required on a routine basis by the provincial Government.

I wonder if the Provincial Auditor could perhaps give us an overview of his powers in the area of what is known as value for money audits. I noted in the Auditor's Report for 1987-88 that very little if any mention is made of audits of external agencies receiving transfer payments from the provincial Government. I wonder if, therefore, it is safe for me to assume that the responsibility of his office in the area of value for money audits, specifically and especially of external agencies, is somewhat circumscribed and that therefore audits, such as the three-phase audit we have just faced, will become a regular feature of the landscape due to any shortfall in the Provincial Auditor's powers.

**Mr. Jackson:** In 1979 The Provincial Auditor's Act was amended. At that time the Provincial Auditor's office was asked to draft proposed amendments that might be comparable and in keeping with changes that had been made to The Auditor General's Act of Canada and several other legislative Auditors across the country. In the course of drafting the proposed amendments to the Act, sections were included that suggested the Provincial Auditor would undertake, as directed by the Legislature, audits that concentrated on economy and efficiency; also that he review to determine whether or not appropriate systems were in place in regard to effectiveness.

By a unanimous vote of the House at that particular time those two proposed amendments were dropped

from the Provincial Auditor's proposed legislation. There was a legal interpretation sought by the Provincial Auditor's Office as to whether that circumvented the Provincial Auditor from carrying out work in those areas. There is a clause in The Provincial Auditor's Act that enables the Provincial Auditor's Office and the Provincial Auditor to carry out whatever he considers to be necessary to discharge his responsibilities.

In Canada today, there are several terms which are used for a certain type of auditing. The term "operational audit" is used; the term "comprehensive audit" is used; the term "value-for-money audit" is used. In 1979 when the amendments to The Provincial Auditor's Act were being considered, there was—I would not say a ground swell, but there was certainly a fair bit of concern amongst senior officials in the federal Government as to the tack that was being taken for comprehensive auditing. In fact, in the Manitoba jurisdiction I have the distinct impression that there is some concern that the Provincial Auditor, getting into these fields, would assume a responsibility that had been heretofore the sole prerogative of the Members of the Legislative Assembly and particularly the Opposition Parties. It was perhaps for that reason there was that unanimous vote which eliminated those two proposed amendments to The Provincial Auditor's Act.

However, as I indicated previously, there is that provision for the Provincial Auditor to undertake such work as he considers necessary to discharge his responsibilities. In 1979 after those amendments received an unanimous vote to have them deleted, the then Provincial Auditor requested the Member from the Opposition Party to clarify why that had been done. I believe he got a response which indicated that the Provincial Auditor already had the power to work in these areas if he saw fit. It was considered that the Legislative—the Members of that Party, at least the Members of the Legislative Assembly, did not want to direct the Provincial Auditor to do something if he in fact did not consider it necessary to do it.

To follow up the question just a little bit more fully, we are carrying out work in our office that addresses economy and it addresses effectiveness in some ways. We have not dealt too much with efficiency because, in large measure, efficiency work requires standards to be set. Standard setting is a very complex and difficult job. Many jurisdictions have tried to come to grips with it. Perhaps next year they will be there, but for as many years as they have tried to come to grips with it they have not really been successful.

So we think a fair bit of work has to be done from a management perspective yet to establish what is expected in certain areas as far as efficiency goes. But in reading our reports for the last number of years, I think you will recollect that we have been suggesting that departmental reports contain significant more information in the way of inputs and outputs because we think for the Public Accounts Committee to be able to fully discharge their responsibilities they have to be informed more than departments that have expended the money that they were expected to expend. We expect that there has to be considerably more developed in the way of output measurements so that

not only have they spent the money they expected to spend, but they have accomplished the objectives they intended to accomplish.

\* (2020)

**Mr. Kozak:** I assume from the Provincial Auditor's answer that due to the general language of his enabling legislation he does not feel unduly circumscribed in his functions. However I might ask him if most other jurisdictions in Canada do not specifically provide for functions which his Act does not specifically provide for, especially in the area of value-for-money audits and audits of external agencies receiving provincial transfer payments.

**Mr. Jackson:** The mix is about 50-50 at this point in time. There are about as many legislative auditor Acts that do have requirements for aspects of the three E's, i.e., economy, efficiency and effectiveness. Most of those that do have the responsibility for effectiveness auditing only go so far as to suggest, does there seem to be reasonable procedures in place for the department or agency to measure effectiveness, not to carry out specific effectiveness audits itself?

One of the other comments that I would like to make is that The Provincial Auditor's Act in Manitoba is ahead of many other jurisdictions in that when our Act was amended in 1979 provision was made for inspection audits to be carried out. That gets us into a broader sector than many other legislative auditors go into. What that means is it enables us to follow transfer payments from the Consolidated Fund into entities that receive those transfer payments. We do on an ongoing basis ensure that we carry out some of those inspection audits. However I might also add though, that in regard to transfer payments, we do a broader form of auditing than most other legislative auditors in that our Act also enables us to carry out an audit to the extent that we feel necessary in Crown agencies that do receive transfer payments.

So beyond the 63 or so attest audits that we do that we are the attest auditor, as well as carrying out some broader audit responsibilities in those areas, we also get into and review operations of about 14 other Crown agencies where other auditors are appointed to be attest auditors. When we are in those other agencies we are not duplicating what the other attest auditors do. We are looking at their operations, we think, from the concerns of the Legislature. So while we are not duplicating what is being done by those attest auditors, we are, we think, bringing the concerns of the Legislature into the work that we do.

**Mr. Kozak:** Fine, I am very pleased to hear, Mr. Chairman, that the Provincial Auditor does not feel unduly circumscribed by his terms of reference, and feels that they have considerable built-in flexibility which has not ill-served him to the present time.

I can proceed very briefly to one other item raised as a concern by the Provincial Auditor in his report to the Public Accounts Committee. A recommendation is made that multiyear financial information be made

available to the Legislative Assembly, the public and departmental managers. I note that the Minister of Finance (Mr. Manness) has offered for the 1989-90 fiscal year to include an additional year's fiscal projection. I would like to take a moment simply to assure the Minister of Finance that I will not hoist him on his own petard and repeat a motion that he made last year in this committee although I might read the motion, it is very colourful, Mr. Chairman.

It is moved by Mr. Manness that this committee charge the Minister of Finance with the responsibility of preparing and of presenting a multiyear Budget forecasting the revenues and expenditures for the province for the next five years beginning with the 1988 Budget. I imagine I just might like at this point to give the Minister of Finance a few seconds to express his gratitude for my not moving his motion.

**Mr. Manness:** It is too bad Mr. Kozak was not here at that time and been part of a great debate. I was solemnly defeated of course by the committee at that time. I guess my main intent was to drive home a point that I wanted to see some longer forecast of years. Although the former administrations saw fit not to support my motion, I will nevertheless be moving along providing not only what I think is very important but indeed as has been addressed several times by the Provincial Auditor over the years. As I indicated on Monday, I would love to be able to provide a longer forecast. A set of circumstances that I find now was in the department precludes that at this time.

**Mr. Kozak:** I would like to concur actually with the Minister of Finance. A five-year forecast is fraught with pitfalls as a first venture. There is probably something to be said for venturing into forecasting via first a one-year forecast. Once again, I have no intention of placing a motion in the 1989 record, a similar motion to the one that was placed in the 1988 record. Rather I simply urge the Minister in presenting the one-year forecast. We will watch this carefully because financial forecasting is full of hazards but also full of promise.

I would urge the Minister in presenting his forecast to not present a forecast based on an extreme point of view. There are plenty of extreme forecasts available both on the upside and on the downside. I would urge him to look for a centrist approach, what might be called a consensus approach developed by credible economic forecasting agencies so that we do not have our hopes raised and then dashed by this one-year forecast. We would like this venture to succeed—this venture into forecasting—and we would like the Minister to rely on what can we call the consensus forecast rather than on a best case forecast.

**Mr. Manness:** Regardless of what numbers it is that we present to the people of Manitoba, we will want them to be credible. We will want them to be based on honest feelings as to what is going to happen as far as credible forecasting agencies, if they have any number of economists. I wonder if there is such a thing. Nevertheless, I am ultimately responsible for the numbers that are presented because I am accountable, Mr. Kozak. I therefore will give it my final blessing and

my final view as to how I see the future unfolding in a forecasting sense. It probably comes as no surprise to you I tend to be a little bit on the conservative side when it comes to dealing with numbers. I do not apologize for that but nevertheless the forecast that you will be presented with when the 1989 Budget comes down will be one that will be drafted in an honest and sincere manner.

**Mr. Kozak:** I will make only one final comment before turning the floor to my friend from Churchill.

Because of the hazards of forecasting, Mr. Chairman, I might suggest to the Minister that if he found it necessary to add a staff position to assist him in selecting appropriate economic forecasts, developing appropriate economic forecasts, this additional expenditure would not be criticized by the Official Opposition.

**Mr. Cowan:** I would like to continue along that particular line of questioning on the issue of multiyear forecasting. I understand the Minister's hesitancy in wanting to put on the record forecasts because we heard the Member when he was in Opposition put on the record numerous silly forecasts about the size of the deficit and the size of over-expenditures. He was proven wrong on so many different occasions that one can appreciate, understand and even feel somewhat sympathetic with respect to his hesitancy to put any more forecasts on the record.

However, he did make a motion in 1988. He also made a suggestion on many occasions that if passed or if taken would have required immediate multiyear forecasting. I would ask the Minister to indicate if he was sincere when he put that motion on the table in 1988 or was it just a way to try to provoke attention and draw attention to this particular problem. If he was sincere when he put the motion on the floor in 1988, is he being insincere now when he has the opportunity to follow up on that motion by not doing so?

\* (2030)

**Mr. Manness:** What is patently obvious, Mr. Chairman, is that the Member from Churchill really does not have any hard questions to present to the Auditor. I was trying to make a point a year ago. I was using the extreme argument to try and have the Government of the Day consent to providing some additional forecasts. I placed that motion in terms of a five-year mandate. I would have been delighted a year ago if the Government had consented to a single year. They chose not to. I will, in the sense that that practice proves one that is workable once we bring down the 1989 Budget, in developing a 1990 Budget, if we can go two years beyond that we will do so. We will do it in a progressive way.

I could probably throw a five-year number at the Members right today, but it would be my number. It would be based on how I saw the world unfolding in five years and it would not—it probably would not be any different, it would be my pick of a range if I brought in six or eight professionals to give me a range. That range would probably vary in terms, if you are looking

at the net, bottom-line figure, it can vary by as much as \$800 million. I would then have to either give you that range or pick some number within it.

I think there is a better way, and that is the way we are proceeding. We are going to present the first year forecast and in 1990 try and build upon that.

Now the Member talks about my forecasting ability. How conveniently he forgets when the defeated Budget, by the way, first came out earlier in 1988, it had a forecasted net deficit of \$315 million. At that time I said, well, that is ridiculous. In my view they should be able to bring that deficit in around \$240 million, if not less. Mr. Chairman, about two months afterwards we did bring in the Budget. They claimed it was the same as theirs. We had a bottom line figure of \$195 million. So if I am wrong in my forecasting, it was that I did not reduce enough the forecasted deficit that was presented by the Government opposite. I do not know, the Members can take issue with my forecasting ability. I do not claim it is the greatest but I know one thing, when I present a number, I do not expect and hope—of course I do not expect it will be surpassed.

**Mr. Cowan:** Unfortunately, I do not have the Hansards available but I do have them on file. One can go back and show in the many numerous occasions when the Minister overprojected what the deficit was going to be, overprojected what the expenditures were going to be. It is a matter of the record. I do not want to have it be a matter of my word against the Ministers, because it is very clear in black and white in Hansard, and we will bring those forward.

With respect to his suggestion that what is patently clear is that we do not have any hard questions to throw at the Auditor, we want to not throw hard questions at the Auditor. We want to seek information from the Auditor and we will be doing so. But we do have hard questions to throw at the Minister. One of those hard questions is why are you not courageous enough or smart enough to live up to an expectation which you created in 1988 when you put a motion forward for five-year projections? You did not have to say that there should be five-year forecasting. You now say that is an extreme argument. They were trying to make a point a year ago and it was an extreme argument.

I think if you go through your comments of a year ago, no where and in no way will you find any reference to that motion being an extreme argument or that motion being there only to make a point. You put that motion forward. I can tell you, from what I understand today, I believe it was either a—and I want you to listen very clearly, Mr. Chairperson, because I am not suggesting that the Minister is a phony, but I believe the Minister put forward a phony motion. He now tells us that it was a phony motion, a motion that he did not intend to have passed, a motion that he cannot live up to now that he has the opportunity to live up to it, and a motion, if he had any sense at the time, he knew was an impossible motion. So either it was a phony motion in that he knew that it could not be lived up to or he was not nearly as smart a year ago as he is today, because he had to know if he had any

sort of sense at all about the problems of forecasting that a five-year forecast would be unreasonable.

That is the way that Opposition worked. They put forward a lot of phony motions and a lot of extreme arguments that they cannot live up to now that they are in Government. The one thing about this atmosphere, this venue in which we seek information and make suggestions, make motions, is that it is all recorded very clearly and one can go back to it. One does go back to it and find that this Government is not living up to the expectations that it created, not that we are foisted upon it, but the expectations that it created. I think that is a less than honest approach. They are the ones who have to live with their record, and they are the ones who have to live with not being able to live up to what they said they would do.

I want to test that a bit further. The Minister said that the circumstances that he now finds in the Department of Finance are such that they preclude providing longer term multiyear forecasting. I would ask the Provincial Auditor, because the Provincial Auditor has made a point of the value of a multiyear financial plan, if he believes that there is enough information available from an Auditor's perspective that one could pull together a multiyear forecasting of a longer duration than one year into the future at the present time with all the caveats imposed upon it that one has to when they are suggesting that forecasting be undertaken; in other words, that circumstances do change, that one cannot anticipate all the different variables but one can give, and this is how I suggest the multiyear forecast will eventually be shaped. One can give various scenarios which lead you one, two and three years down the road.

If the Minister of Finance asked the Provincial Auditor to undertake such a work or to bring together departmental and private sector expertise to perform such an exercise, does he believe it could be done?

\* (2040)

**Mr. Jackson:** One of the projects that is currently under way by that Public Sector Accounting and Audit Committee of the Canadian Institute of Chartered Accountants relates to transfer payments. Two of the biggest transfer payments that affect both the federal jurisdiction and provincial jurisdictions are the Established Programs Funding and the equalization transfers. There is a real problem with those transfers in that the federal Government is basically the repository of the information that is essential for those payments to be determined.

Provincial information on, basically, gross provincial product or its roughly comparable amount similar to that, is developed from each of the provinces and it is fed into the federal calculations. Those two projects themselves end up being approximately one-third of the revenues of the provincial Government, and some shared cost programs. The larger portion of the money coming from the federal scene relates to those two programs.

We had hoped when we got into this that there would be an increased ability, either through modelling or

improved financial reporting, to have information available from Canada on a more accurate and more timely basis. Canada is currently attempting to improve its modelling in this area, but it is my understanding from recent discussions with one of the representatives from Canada that is involved in this area that they are still a number of years away of having something that is considered to be a superior modelling tool to help them with their forecasting in this area.

Having said that, what we have been suggesting for a number of years is that the first year away from the estimate material that is being brought forward relate to departments, but that the second year relate to departments perhaps only from a total perspective. Possibly if we moved a year past that we would only be interested in the roughest kind of approximation for perhaps the anticipated deficit position. If that was done I think it could not be done without some best-case, worst-case scenarios. So that one would, as they moved past the first year, be some conditions sitting out there. It is my understanding that today, in any one year, even as close as six months from the end of that fiscal year, information relative to Canada's transfers to each of the provinces is basically an undetermined, unknown amount. It can significantly impact on what the operating results for several of the provinces, and certainly including Manitoba, would be.

**Mr. Cowan:** That is not a new problem. Yet in the Auditor's report, March 31, 1988, and again we have then statements in black and white, there were comments made with respect to multiyear auditing and multiyear budgeting, planning and forecasting. Let me just quote some of them: "In prior reports we expressed concerns regarding the absence of published, Government, multiyear financial plans and projections. We recommended the development and distribution of a multiyear financial plan to assist in evaluating the financial position, the economic strength of the province." I am going to skip through a rather lengthy section on it, but I think and the Minister can correct me if I am wrong, I am not taking anything out of context. Later on it said, "We appreciate that predicting the future is difficult. Multiyear global projections, however, can assist in understanding current requirements and in making difficult resource allocation decisions.

Moving over to the next page, it is indicated that during each of the last four years the Standing Committee on Public Accounts discussed our recommendations regarding the publication of multiyear information. One of the main problems centred around the ability to obtain meaningful revenue projection information, and I assume that is in each of those years that was one of the main problems that was identified. Yet each year the Auditor came forward with a recommendation for multiyear financial planning.

We in Government understood the problems with respect to multiyear financial planning and I think we indicated what we thought they were. One is that your revenue projections can change dramatically—and do we not know it—that one cannot plan ahead as to what they are going receive from the federal Government, because it seems the federal Government has some

unknown ways of determining how much they are going to give to a provincial Government at any given time, and the previous administration certainly fell prey to that in a lot of ways.

That is why the Minister of Finance (Mr. Manness) can take some satisfaction in the fact that he projected they could come in with a lower deficit. Perhaps he knew at that time the federal Government was going to be more forthcoming with their transfer payments than we knew. Perhaps there was some pipeline there or perhaps it was just some very intuitive—yes, intuition for sure, as the Minister of Finance says, some very intuitive conjecture on his part now. Only history will tell.

However, the fact is, that is how the Budget came in at the level at which it came in, but that does not take away from the recommendations that were made previously by the Auditor and the recommendations and motions that were put forward by the Minister of Finance when he was in the privileged position of being in Opposition and being able to have it, as his colleagues often said, both ways.

The fact is that one can forecast financial data to the extent that they can try to forecast how much a program is going to cost over one, two, three, four and five years, and as a matter of fact, Government does do that and is getting better at it. I think that is as a result of understanding how to do it better and understanding the need for it to be done more so.

One has to credit the Auditor with bringing that to the attention of successive Governments and pressuring and pushing and saying you need to be able to project new programs and existing programs—the cost of those programs—more than just one year in the future, and even when one projects something over which one would seem to have a great deal of control. In other words, the financial requirements of a particular program, forecasting, is still fraught with many uncertainties because the economy would have so much impact on welfare programming or on economic development programming or on Northern Affairs programming or on any programming of the Government, and that is beyond the control of the provincial Government in a lot of ways, although not in all ways.

One would expect that a provincial Government that maybe had anticipated a relatively smooth economy for a period of time would forecast a program at a certain level, and if the economy were to worsen they would have to, if they were a humane and reasonable Government, put more money into that particular programming, or it could be that they had forecasted the need for a specific program based on an economy of a certain level and the economy got appreciably better and they could reduce the programming required in that particular area and bring money back into the General Consolidated Fund of the provincial Treasury.

We understand that, that projections are going to have to be based on worst-case, best-case scenarios, but the fact is one can develop best-case, worst-case scenarios and the farther you project it out into the future and the more elements that you bring into the

equation, the more difficult it is going to be to be able to forecast what will be the end result at the end of that. That is why you would consistently update them on a six-month or an annual basis, but that still can be done, and so the question I am asking the Provincial Auditor is, given that for four years running this has been a matter of discussion here and in a large part because of his prodding or his predecessor's prodding—and we believe that was well intentioned and we believe that was productive—we want to ensure that prodding continues.

Therefore I ask, and the question is, would it be possible now to pull together groups from within the Government and outside the Government that could give us that three-year projection or that five-year projection or that two-year projection, with the caveat that one cannot entirely project expenditures and revenues that are beyond the control of the province, but it would give us what the Auditor said was important, and that was the ability for departments at least to appreciate potential changes in their operations and help them focus on high priority in longer term activities.

\* (2050)

**Mr. Jackson:** Mr. Cowan is quoting from our 1988 report. We stand behind our 1988 report. We are not varying from that. We think that considerably more can be done in the way of projections, but it is an area that needs a fair bit of work. As we have indicated before, we think the place to start is one year and move ahead. We perhaps are not as ambitious as the five-year forecast at this point in time. Perhaps with the exception of certain areas where you can make capital projections some considerable distance into the future, we think that more can be done. This probably would be helpful to the strategic planning that still is required to be done to a greater extent in certain of the departmental operations to help better understand the environment today and what it might be into the years ahead to help make some of those hard choices that we are concerned about. There are elements of it that can be done easier than others; probably the expenditure side might be easier than certain of the aspects of revenues but there are certain revenues that can be predictable so that we are not varying from our recommendations. It is an area that needs work and we have recommended that work be started and moved ahead.

**Mr. Manness:** Mr. Chairman, I do not want to preempt Mr. Cowan because I know he will want to continue, but I just want to put this on the record. First of all, I regret the imputation of motives, mine particularly, with respect to maybe—at least I think this is the point the Member is trying to make—that he feels that I might have had some inside knowledge as to what a revenue number might be and by way of transfer from the federal Government and I think I am talking about February 1988.

Let me say for the record clearly, Mr. Chairman, I did not have any undertaking or conversation with any federal official, elected or otherwise, within the Department of Finance federally, that would have given

me any insight as to additional revenue flows that might be coming to Manitoba. I think that is specifically what the Member for Churchill is referring to.

If we would have had another two months before we brought down the Budget, I would have presented the year forecast for '89-90. I would have made an attempt at that particular point, time did prevent that, but the point being is that we have undertaken to do that. We will present that in our '89 Budget and we will go from there. We will ultimately, and I do not think it will be after four years but over a shorter period of time, get to a point where hopefully we can be at three years and we can give different scenarios, different situation Estimates.

I understand the system. I am an economist. I have no problem in doing that. If the Member wants to take measure or make conflict with me because I had made a motion a year ago that there should be a five-year estimate and if he feels particularly hurt because I brought that motion up when the NDP were in Government, well, to him I feel sorry. I say I am sorry.

Mr. Chairman, let the Member make the motion if he still wishes. I know that one can only do what they can do and I am promising that we will present the next year in 1989 and after that hopefully we will be able to present two years.

**Mr. Kozak:** I think there is a certain amount of consensus on the way to proceed in the upcoming fiscal year on this matter. I would like to take a moment particularly to state my agreement with what the Member for Churchill (Cowan) said regarding the increased hazards of forecasting as one extends out into the second, third, fourth, and fifth years of a forecast. A five-year forecast would in terms of upside, downside, and median scenarios have considerable divergence between the three scenarios and would in fact be of limited use to the taxpayer, to the businessperson, to Government agencies and bodies in assessing where they would really be five years down the road.

I suggest we not reject the Minister's suggestion that we ease into this. I would repeat my urging to him that he seek a consensus forecast rather than an upside scenario as the basis for his projections. I believe it is in his own interest, his Government's interest, to do so, and in the interest of taxpayers, businesspeople, and Government agencies in understanding their environment a year from now.

The hazards are real as we approach five-year forecasting. It will take us a while to gear up for it. If we did in fact find ourselves confronted with a five-year forecast based only on one set of numbers immediately, we would undoubtedly all find ourselves in a state of hilarity to see the Government projecting a continuation of the current economic recovery into a 12th year.

The Official Opposition would like to avoid that. We think a one-year forecast, if the Government relies on consensus estimates, median estimates, has a potential to provide reputability to the process of forecasting. We in the Official Opposition would like to see that



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reputability established and progress made from there in extending the forecast to longer terms.

**Mr. Chairman:** The hour being nine o'clock, what is the will of the committee? Mr. Manness.

**Mr. Manness:** Mr. Chairman, I will be very brief. Thanks to the Members of the committee.

I hear the Member loudly and clearly. I only say that if he searches the record, and I know he has, and he hears my comments previously on multiyear forecasting, I never did dwell on the bottom line figure. I always saw the great benefit of it, not trying to forecast a deficit, because for the reasons enunciated here, particularly on the revenue side, made that almost impossible.

I saw the great benefit as to trying to make known to the public at large what it was we were locked into

on the cost side, on the expenditure side. My views have not changed on that one bit. As a matter of fact, I feel even more strongly today on that than I even did then, having been involved in the budgetary process.

If we can show the people what it is that we have committed by way of decisions made in the past for the next number of years forward, and how there is in the area of discretionary spending, then I think we will have accomplished something and we will maybe reduce the pressure somewhat of all people in society coming into Government believing that through just additional funding that all the solutions will be found. It cannot work that way. That was the intent when I brought forward the claim, or the wish to see multiyear budget and it still remains my goal.

**Mr. Chairman:** Committee rise.

**COMMITTEE ROSE AT:** 9:02 p.m.